

FINANCIAL & OPERATING HIGHLIGHTS:

The table below is a summary of our financial and operating results for three months ended March 31, 2011 and 2010.

	Three Months Ended March 31		
	2011	2010	Change
FINANCIAL			
Revenues ⁽¹⁾	\$ 1,218,702	\$ 569,480	114%
Cash from operating activities	146,828	78,107	88%
Net income (loss)	37,961	(19,952)	290%
Bank debt	29,660	187,884	(84%)
Senior notes	470,676	214,894	119%
Convertible debentures	744,490	771,597	(4%)
Total financial debt	1,244,826	1,174,375	6%
Total assets	\$ 6,041,118	\$ 4,757,865	27%
UPSTREAM OPERATIONS			
Daily sales volumes (boe/d)	53,331	50,178	6%
Average realized price			
Oil and NGLs (\$/bbl) ⁽²⁾	73.75	71.12	4%
Gas (\$/mcf)	3.83	5.13	(25%)
Operating netback (\$/boe) ⁽²⁾	33.67	36.20	(7%)
Capital asset additions (excluding acquisitions)	\$ 237,649	\$ 113,526	109%
Property and business acquisitions (dispositions), net	\$ 515,496	\$ 30,938	1,568%
Abandonment and reclamation expenditures	\$ 1,967	\$ 5,650	(65%)
Net wells drilled	104.9	65.9	59%
Net undeveloped land acquired in business combination (acres) ⁽³⁾	223,405	-	100%
Net undeveloped land additions (acres)	53,480	22,387	139%
DOWNSTREAM OPERATIONS			
Average daily throughput (bbl/d)	97,438	41,016	138%
Average Refining Margin (US\$/bbl)	10.96	-	100%
Capital asset additions	35,879	8,683	313%

(1) Revenues are net of royalties and the effective portion of Harvest's crude oil hedges.

(2) Excludes the effect of risk management contracts designated as hedges.

(3) Excludes carried interest lands acquired in business combination.

PRESIDENTS MESSAGE: Q1 2011

The first quarter of 2011 was a very successful period for Harvest as our focus as a growth-oriented oil and gas company has allowed an active and ultimately very successful drilling program. The accelerated development of the unexploited potential of our asset base, the step-outs into new areas and the accumulation of assets with future development opportunity combine to create an exciting future for Harvest.

Harvest realized a strong financial performance from all parts of our business in the first quarter. Cash from operating activities was \$146.8 million in the first quarter of 2011, representing an 88% increase over the same period last year. The oil-weighted nature of our Upstream business provided for strong cash flow performance from our Upstream business. In the Downstream, margins were substantially improved on a year-over-year basis and with much stronger operational performance it made a considerable contribution to cash flow as well.

Our capital spending in the first quarter was concentrated on development opportunities in our oil-weighted asset base. In addition, we closed the previously announced acquisition of assets from Hunt and we advanced on high-return projects in the Downstream business.

Harvest maintained its strong and improving financial position in the first quarter. Strong cash flows from both the Upstream and Downstream businesses and a capital injection from KNOC allowed us to maintain drawings on our credit facility at a modest level. Subsequently to the end of the quarter we successfully negotiated a 2-year extension to this facility while reducing the rate.

UPSTREAM OPERATIONS

Upstream production volumes in the first quarter of 2011 averaged 53,331 boe/d; a 6% increase over the same period last year, reflecting production from our recently acquired assets and our active and successful drilling program. Year-over-year, Harvest's production mix remains relatively unchanged with 48% weighted to light and medium crude, 17% weighted to heavy crude, 6% weighted to natural gas liquids and the remaining 29% weighted to natural gas.

Harvest's commitment to growth resulted in an initial 2011 capital budget (excluding BlackGold) of \$450 million of which \$237.6 million was spent in the first quarter of this year; an increase of 109% over the same period last year. Of the \$237.6 million, \$137.6 million or 58% was spent on drilling and completion activities. During the quarter Harvest drilled 115 gross wells with a 98% success rate.

We were very successful and pleased with our ongoing development of unconventional and conventional reservoirs. The availability of capital to develop these assets provided for volume growth opportunity and high returns on our investments. In our Hay River area, 38 gross wells were drilled in the pursuit of medium gravity oil. We were also active in the Red Earth area where we drilled 23 gross wells including 15 horizontal wells into the Slave Point light oil formation using multistage fractured completions. At Kindersley, Harvest drilled 7 gross horizontal wells into the Viking light oil formation all completed using multistage fracture technology.

While continuing development of these and other areas, we also continue to step-out from existing reservoirs into new parts of the basin that provide for attractive growth opportunity using our technologies. At Rimbey/Markerville in West Central Alberta, Harvest drilled 9 gross wells including a follow-up Ellerslie light oil well that tested at over 600 boe/d. We also drilled a successful Montney exploration oil well and are in the process of evaluating the productivity and areal extent of this pool.

During the first quarter of 2011 Harvest successfully closed the acquisition of producing and undeveloped assets from Hunt. The acquisition closed in late February of 2011. Current production from the assets exceeds 11,000 boe/d. The assets also have a number of attractive drilling prospects including wells that have now been drilled and tested at rates up to 15 mmscf/d and 600 boe/d liquids gross and lands in excess of 370,000 net acres which are undeveloped and carried interest lands that are complementary to existing Harvest land positions. Included among the undeveloped lands is approximately 35,000 acres in the Horn River that Harvest will pursue development of in the years ahead as natural gas prices recover. With an effective date on the acquisition of October 1, 2010, total cost at closing was \$505.4 million which was funded by a capital injection from KNOC.

Based on success in our exploration and development projects, we are pleased to announce an increase in the Upstream capital budget of \$116 million (excluding BlackGold) to drill an additional 56 wells exploiting some of the oil and liquids rich natural gas opportunities identified through our successful first quarter drilling program.

Harvest's BlackGold oil sands project continues to advance on phase 1 of the project with the drilling of 12 observation wells. Throughout the first quarter of 2011, Harvest has been working on detail engineering and early stage construction of the Steam Assisted Gravity Drainage (SAGD) facility. Total capital spending in the quarter was \$22.7 million. Phase 1 of the project is targeted to produce 10,000 bbl/d upon completion with first production in 2013. Approval for phase 2 of the project is expected in 2012 and is projected to increase production to 30,000 bbl/d.

With the closing of the acquisition in February and the tie-in of some of the wells drilled in the first quarter, Harvest hit a new record daily production of over 65,000 boe/d in April and was on target to exceed guidance. Unfortunately the line break experienced by the non-operated Rainbow Pipeline in late April and the devastating forest fires experienced in northern Alberta this spring has led to some shut-ins during May and June 2011. We are moving as much production as possible and did not experience any significant direct damage to our facilities but are expecting production to be reduced until the Rainbow Pipeline is restarted and electric power damage from the forest fires that affects our operations is restored. At this point however, we do not expect any material impact to our 2011 production guidance of 60,000 boe/d.

DOWNSTREAM OPERATIONS

Downstream refining and marketing business reported substantially stronger results in the first quarter of 2011 than the same quarter in the previous year. Throughput at the facility averaged 97,438 bbl/d which was a significant improvement from 41,016 bbl/d in the first quarter of 2010. First quarter 2010 throughput rates were impacted by a ten-week unplanned shutdown whereas first quarter 2011 rates are reflective of more normal operations.

Harvest's average refining margin of US\$10.96/bbl was significantly higher than the first quarter of 2010. The increase in the refinery margin for the three months ended March 31, 2011 as compared to the first quarter of 2010 reflects a significantly stronger global refinery margin, partially offset by the increase in sour crude premium and the impact of the ten week unplanned shutdown the process units in the first quarter of 2010. Improvement in the global economy including the ongoing increase in use of refined products combined with the shutdown of inefficient refining capacity by others resulted in margins increasing from very low levels in 2010 to substantially better levels in 2011.

Capital continues to focus on the debottlenecking project which is a suite of 23 individual projects geared toward the integrated expansion and enhancement of several existing process units; it involves both low cost and simple debottlenecking of existing process units to capture additional capacities by 13%, enhance distillate yields by 9%, and improve energy efficiency of the refinery by 17%. Capital expenditures in the first quarter for our Downstream operations totaled \$35.9 million of which \$14.6 million was to advance on debottlenecking projects.

CORPORATE UPDATE

Subsequent to the first quarter of 2011, Harvest successfully renewed and extended the \$500 million credit facility to April 30, 2015. The benefit to Harvest will be reduced borrowing costs and extension of the maturity date to fund company operations.

As previously mentioned, KNOC injected \$505.4 million of additional capital into Harvest in exchange for equity to fund the acquisition completed in the first quarter.

Harvest continues to utilize price risk management to reduce volatility in our cash flow. We now have in place 16,400 bbl/d of risk management hedges for WTI for the remainder of 2011 at an average price of US\$93.54/bbl and 4,200 bbl/d for WTI in 2012 at \$111.37/bbl.

The financial statements for the first quarter of 2011 are the first statements prepared in accordance with International Financial Reporting Standards (IFRS) for Harvest. To conform to IFRS presentation, the 2010

comparative periods have been restated and reconciliations from IFRS are shown in the notes to the financial statements.

Harvest has consistently maintained a disciplined approach in health, safety and environmental issues and remains committed to operating in a socially responsible manner. We regularly conduct emergency response training, and perform safety and environmental audits of our operating facilities.

In closing, we thank all of our stakeholders for your support of and interest in Harvest.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements of Harvest Operations Corp. ("Harvest", "we", "us", "our" or the "Company") for the three months ended March 31, 2011 and the audited consolidated financial statements and MD&A for the year ended December 31, 2010. The information and opinions concerning our future outlook are based on information available at June 13, 2011.

On January 1, 2011, Harvest adopted International Financial Reporting Standards ("IFRS"). Harvest's previously reported consolidated financial statements in Canadian Generally Accepted Accounting Principles ("Canadian GAAP") have been adjusted to be in compliance with IFRS on January 1, 2010, the transition date.

In this MD&A, all dollar amounts are expressed in Canadian dollars unless otherwise indicated. Tabular amounts are in thousands of dollars, except where noted. Natural gas volumes are converted to barrels of oil equivalent ("boe") using the ratio of six thousand cubic feet ("mcf") of natural gas to one barrel of oil ("bbl"). Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf to 1 bbl is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalent at the wellhead. In accordance with Canadian practice, petroleum and natural gas revenues are reported on a gross basis before deduction of Crown and other royalties. In addition to disclosing reserves under the requirements of National Instrument (NI) 51-101, Harvest also discloses our reserves on a company interest basis which is not a term defined under NI 51-101. This information may not be comparable to similar measures by other issuers.

Additional information concerning Harvest, including its Annual Information Form ("AIF") can be found on SEDAR www.sedar.com.

NON-IFRS MEASURES

Throughout this MD&A, the Company has referred to certain measures of financial performance that are not specifically defined under IFRS, herein after referred to as GAAP, such as "operating netbacks", "gross margin", "earnings from operations", "cash contributions from operations", "cash from operations", "total debt", "total capitalization" and "EBITDA". "Operating netbacks" are always reported on a per boe basis and used extensively in the Canadian energy sector for comparative purposes. "Operating netbacks" include revenues, operating expenses, and transportation and marketing expenses. "Gross margin" is commonly used in the refining industry to reflect the net funds received from the sale of refined products after considering the cost to purchase the feedstock and is calculated by deducting purchased products for resale and processing from total revenue. "Earnings from operations", "cash contributions from operations" and "cash from operations" are commonly used for comparative purposes in the petroleum and natural gas and refining industries to reflect operating results before items not directly related to operations. "Total debt", "total capitalization" and "EBITDA" are used to assist management in assessing liquidity and the Company's ability to meet financial obligations. The non-GAAP measures may not be comparable to similar measures by other issuers.

FORWARD-LOOKING INFORMATION

This MD&A highlights significant business results and statistics from our unaudited interim consolidated financial statements for the three months ended March 31, 2011 and the accompanying notes thereto. In the interest of providing our lenders and potential lenders with information regarding Harvest, including our assessment of our future plans and operations, this MD&A contains forward-looking statements that involve risks and uncertainties.

Such risks and uncertainties include, but are not limited to: risks associated with conventional petroleum and natural gas operations; risks associated with refining and marketing operations; the volatility in commodity prices and currency exchange rates; risks associated with realizing the value of acquisitions; general economic, market and business conditions; changes in environmental legislation and regulations; the availability of sufficient capital from internal and external sources; and, such other risks and uncertainties described from time to time in our regulatory reports and filings made with securities regulators.

Forward-looking statements in this MD&A include, but are not limited to, the forward looking statements made in the “Outlook” section as well as statements made throughout with reference to production volumes, refinery throughput volumes, royalty rates, operating costs, commodity prices, administrative costs, price risk management activities, acquisitions and dispositions, capital spending, reserve estimates, access to credit facilities, income taxes, cash from operating activities, and regulatory changes. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements often contain terms such as “may”, “will”, “should”, “anticipate”, “expect”, “target”, “plan”, “potential”, “intend”, and similar expressions.

Readers are cautioned not to place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. Although we consider such information reasonable at the time of preparation, it may prove to be incorrect and actual results may differ materially from those anticipated. Harvest assumes no obligation to update forward-looking statements should circumstances, estimates or opinions change, except as required by law. Forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

REVIEW OF OVERALL PERFORMANCE

Upstream

- ◆ Sales volumes increased by 3,153 boe/d to 53,331 boe/d from the first quarter of 2010 primarily due to production from recently acquired properties.
- ◆ Cash flow from operating activities was \$117.0 million in the first quarter of 2011, which is 63% higher than cash flows of \$71.7 million in the same quarter in the previous year. This increase is primarily due to increased sales volumes.
- ◆ Capital spending of \$237.6 million include the drilling of 115.0 gross (104.9 net) wells with a success ratio of 98%. Capital spending has approximately doubled from the first quarter of 2010 with \$113.5 million of capital spending and 80.0 gross (65.9 net) wells drilled.
- ◆ Harvest's operating netback was \$33.67/boe prior to hedging for the first quarter of 2011; a decrease of 7% from the same quarter in the previous year, reflecting lower natural gas prices and royalties and higher operating costs.
- ◆ Harvest successfully closed the acquisition of assets from Hunt Oil Company of Canada, Inc. ("Hunt") for \$505 million in cash on February 28, 2011.

Downstream

- ◆ Throughput volume averaged 97,438 bbl/d as compared to 41,016 bbl/d in the same quarter of 2010 reflecting normal operating levels in the first quarter of 2011. Refining gross margin averaged \$10.96/bbl in the first quarter of 2011 as compared to \$nil/bbl in the first quarter of 2010 due to an unplanned shutdown of refinery process units in the first quarter of 2010, stronger global refinery margins in 2011 and higher throughput.
- ◆ Cash flow from operating activities totaled \$29.8 million in the first quarter of 2011 as compared to \$6.4 million in 2010. The improved cash flow is primarily due to higher throughput and refinery margins in 2011.
- ◆ Capital spending was \$35.9 as compared to \$8.7 million in the same quarter of 2010. During the first quarter of 2011 and 2010, \$14.6 million and \$5.9 million were spent on the debottlenecking project respectively.

Corporate

- ◆ Harvest received a capital injection of \$505.4 million from KNOC to fund the acquisition of the Hunt assets.

UPSTREAM OPERATIONS
Summary of Financial and Operating Results

Three Months Ended March 31

	2011	2010	Change
FINANCIAL			
Petroleum and natural gas sales	\$ 281,051	\$ 271,731	3%
Royalties	(35,858)	(41,756)	(14%)
Revenues	245,193	229,975	7%
Operating expenses	83,595	64,253	30%
Transportation and marketing	3,003	2,207	36%
General and administrative expenses	13,522	12,417	9%
Depreciation, depletion and amortization	121,344	116,334	4%
Exploration and evaluation	6,215	26	238%
Gain on disposition of property, plant and equipment	(240)	(263)	(9%)
Earnings From Operations ⁽¹⁾	\$ 17,754	\$ 35,001	(49%)
Capital asset additions (excluding acquisitions)	\$ 237,649	\$ 113,526	109%
Property and business acquisitions (dispositions)	\$ 515,496	\$ 30,938	1568%
Abandonment and reclamation expenditures	\$ 1,967	\$ 5,650	(65%)
OPERATING			
Light / medium oil (bbl/d)	25,523	24,487	4%
Heavy oil (bbl/d)	9,038	9,250	(2%)
Natural gas liquids (bbl/d)	3,455	2,816	23%
Natural gas (mcf/d)	91,888	81,752	12%
Total (boe/d)	53,331	50,178	6%

(1) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.

Commodity Price Environment

Three Months Ended March 31

	2011	2010	Change
West Texas Intermediate crude oil (US\$ per barrel)	94.10	78.71	20%
Edmonton light crude oil (\$ per barrel)	88.04	80.27	10%
Bow River blend crude oil (\$ per barrel)	71.33	73.55	(3%)
AECO natural gas daily (\$ per mcf)	3.76	4.95	(24%)
Canadian / U.S. dollar exchange rate	1.014	0.961	6%

Three Months Ended March 31

	2011	2010
Differential Benchmarks		
Bow River Blend differential to Edmonton Par (\$/bbl)	\$16.71	\$6.72
Bow River Blend differential as a % of Edmonton Par	19.0%	8.4%

The average WTI benchmark price in the first quarter of 2011 was 20% higher than the first quarter 2010 average price. The average Edmonton light crude oil price ("Edmonton Par") also experienced an increase over the first quarter of the prior year, due to the higher WTI prices but partially offset by the stronger Canadian dollar and a wider sweet differential. The Bow River blend crude oil price ("Bow River") remained relatively consistent with the

first quarter 2010 price, with the higher WTI price offset by the stronger Canadian dollar and a wider Bow River differential.

Heavy oil differentials fluctuate based on a combination of factors including the level of heavy oil inventories, pipeline capacity to deliver heavy crude to U.S. markets and the seasonal demand for heavy oil. In the first quarter of 2011, Bow River heavy oil differential relative to Edmonton Par increased to an average of \$16.71/bbl (19.0%) compared to \$6.72/bbl (8.4%) in the prior year.

Realized Commodity Prices

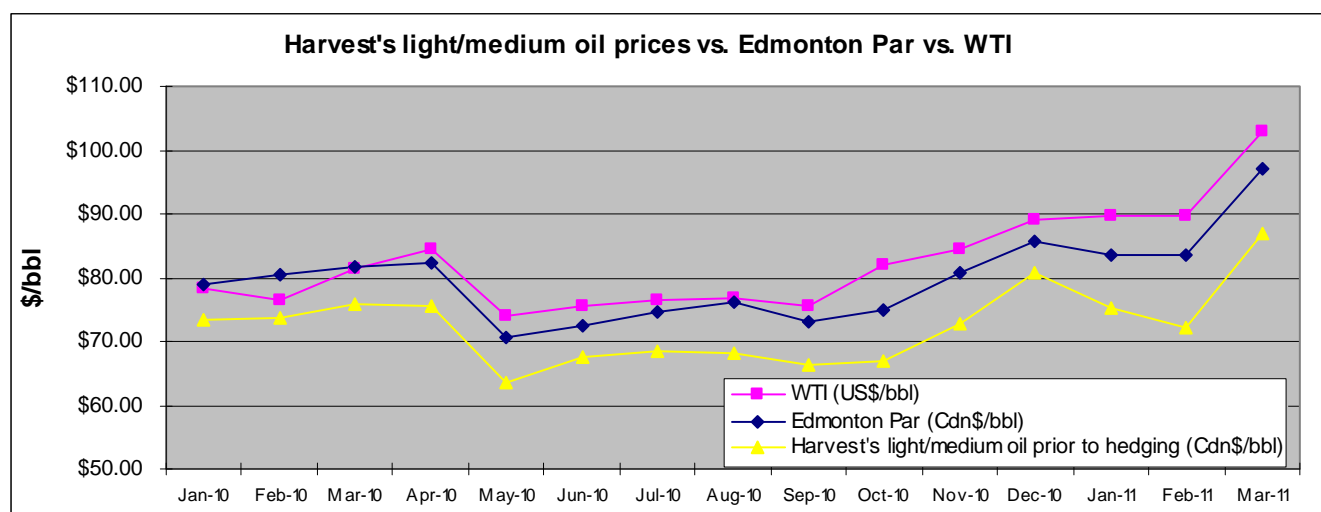
	Three Months Ended March 31		
	2011	2010	Change
Light to medium oil prior to hedging (\$/bbl)	78.69	74.35	6%
Heavy oil (\$/bbl)	61.51	65.98	(7%)
Natural gas liquids (\$/bbl)	69.32	59.89	16%
Natural gas (\$/mcf)	3.83	5.13	(25%)
Average realized price prior to hedging (\$/boe)	59.19	60.17	(2%)
Light to medium oil after hedging (\$/bbl)	77.37	74.35	4%
Average realized price after hedging (\$/boe)	58.55	60.17	(3%)

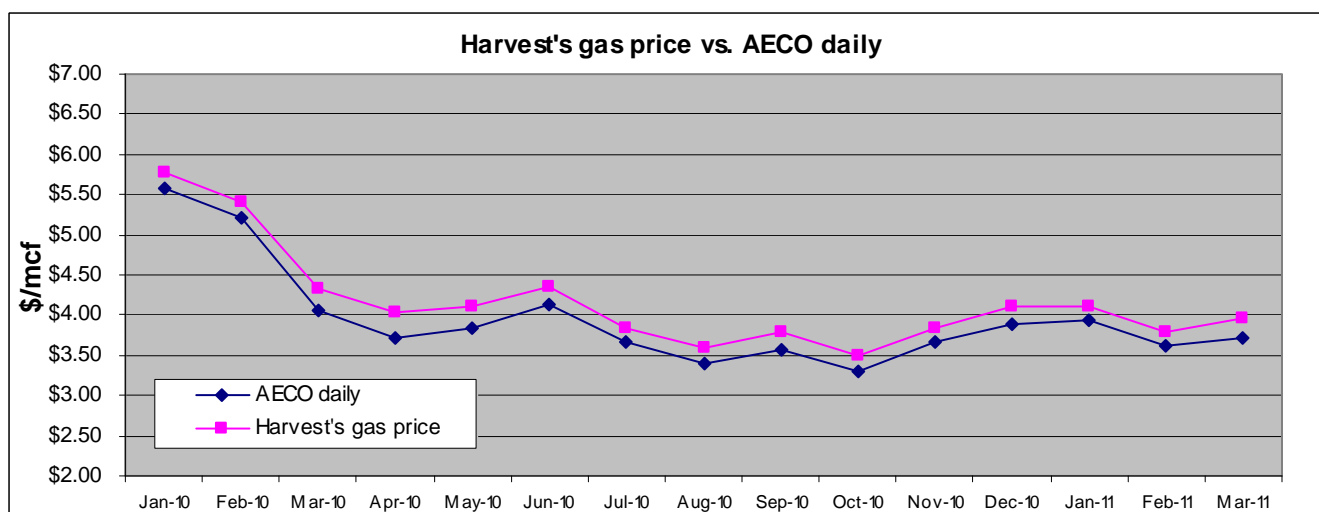
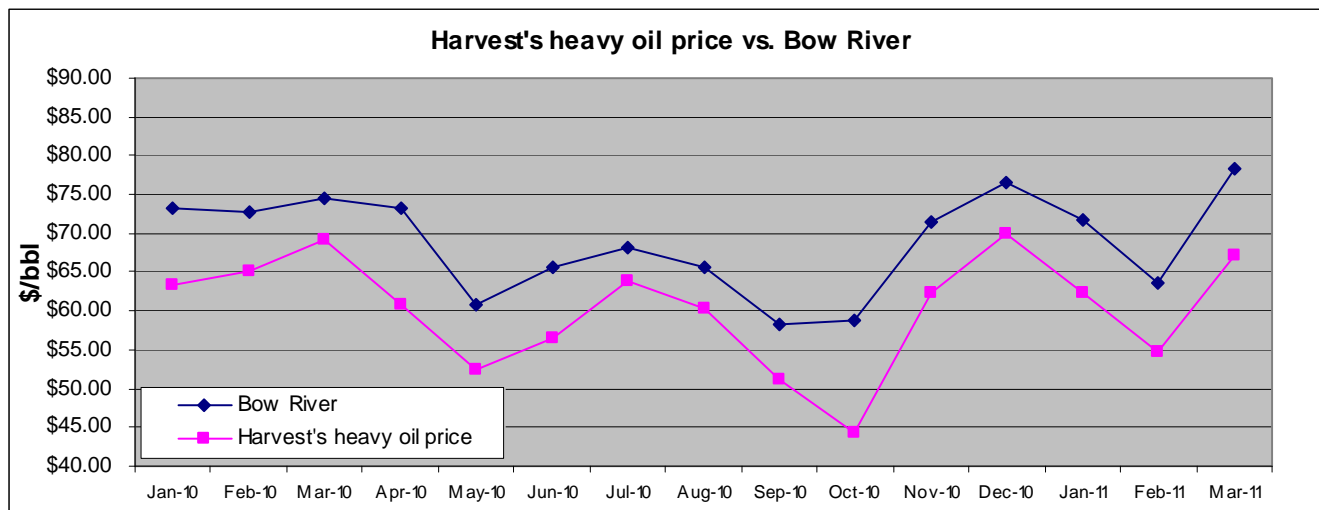
Prior to hedging activities, our realized price for light to medium oil increased by 6% in the first quarter of 2011 as compared to the same period in the prior year. This increase is lower than the 10% increase in Edmonton Par, mainly due to a wider light sour differential in 2011.

In order to mitigate the risk of fluctuating cash flows due to crude oil price volatility, Harvest has entered into fixed-for-floating swaps. The impact of this hedging activity resulted in a decrease of \$1.32/bbl (2010 – \$nil) in Harvest’s realized light to medium oil price to \$77.37/bbl in the first quarter of 2011. With respect to our cash flow risk management program, see “Cash Flow Risk Management” in this MD&A.

Harvest’s realized heavy oil prices decreased by 7%, reflecting the decrease in the Bow River prices.

The average realized price for Harvest’s natural gas production decreased by 25% compared to the first quarter of 2010, reflecting the 24% decrease in the AECO benchmark price.





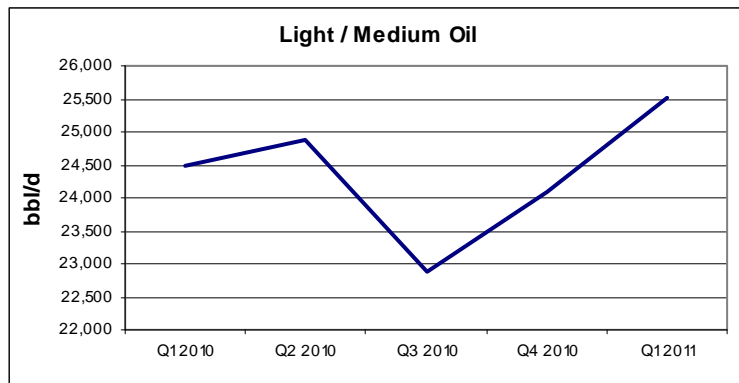
Sales Volumes

Three Months Ended March 31

	2011		2010		% Volume Change
	Volume	Weighting	Volume	Weighting	
Light to medium oil (bbl/d) ⁽¹⁾	25,523	49%	24,487	49%	4%
Heavy oil (bbl/d)	9,038	17%	9,250	18%	(2%)
Natural gas liquids (bbl/d)	3,455	6%	2,816	6%	23%
Total liquids (bbl/d)	38,016	72%	36,553	73%	4%
Natural gas (mcf/d)	91,888	28%	81,752	27%	12%
Total oil equivalent (boe/d)	53,331	100%	50,178	100%	6%

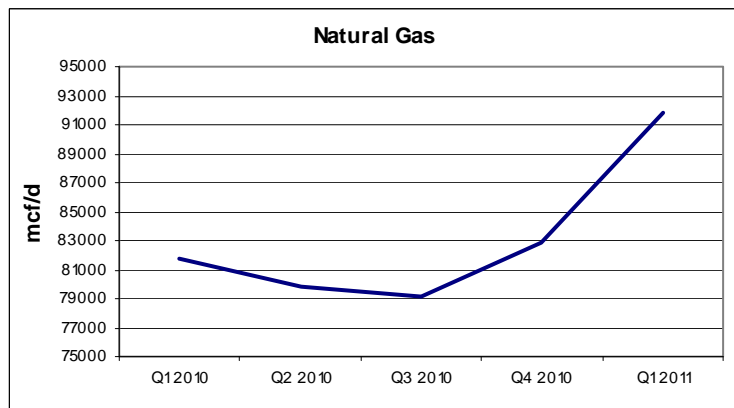
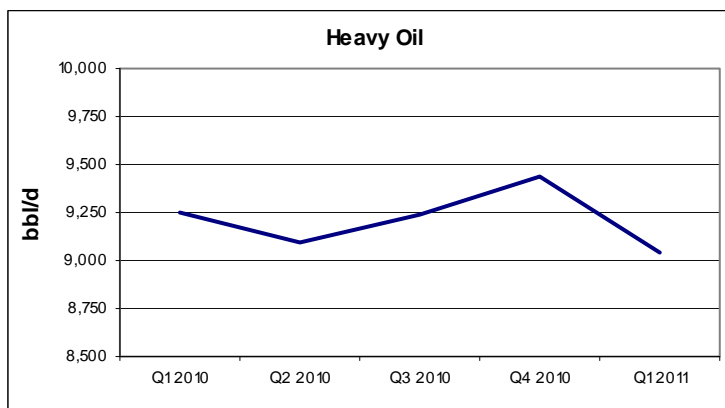
(1) Harvest classifies our oil production, except that produced from Hay River, as light to medium and heavy according to NI 51-101 guidance. The oil produced from Hay River has an average API of 24° (medium grade) and is classified as a light to medium oil, notwithstanding that, it benefits from a heavy oil royalty regime and therefore would be classified as heavy oil according to NI 51-101.

Harvest's sales volumes increased to 53,331 boe/d in the first quarter of 2011, a 6% increase over the first quarter of 2010. The increase is primarily attributable to the acquisition of assets at the end of the third quarter of 2010 and the acquisition of the Hunt assets in February 2011.



Harvest's average daily sales of light/medium oil was 25,523 bbl/d in the first quarter of 2011 compared to 24,487 bbl/d in the first quarter of 2010, resulting in an increase of 1,036 bbl/d. This increase is mainly attributable to the third quarter 2010 and first quarter 2011 acquisitions.

Heavy oil sales volumes declined from an average of 9,250 in the first quarter of 2010 to 9,038 bbl/d in 2011. The decline is primarily due to natural declines.



Natural gas sales averaged 91,888 mcf/d in the first quarter of 2011 compared to 81,752 mcf/d in 2010 mainly due to the acquisition of Hunt assets at the end of February 2011.

Revenues

	Three Months Ended March 31		
	2011	2010	Change
Light / medium oil sales after hedging ⁽¹⁾	\$ 177,725	\$ 163,857	8%
Heavy oil sales	50,032	54,931	(9%)
Natural gas sales	31,679	37,765	(16%)
Natural gas liquids sales and other ⁽²⁾	21,615	15,178	42%
Petroleum and natural gas sales	281,051	271,731	3%
Royalties	(35,858)	(41,756)	(14%)
Revenues	\$ 245,193	\$ 229,975	7%

(1) Inclusive of realized commodity risk management activity.

(2) Inclusive of sulphur revenue.

Harvest's revenue is impacted by changes in sales volumes, commodity prices and currency exchange rates. The Upstream operation's total sales revenue for the three months ended March 31, 2011 increased by \$9.3 million from the same quarter in the previous year. The 3% increase is attributable to increased sales volumes, partially offset by the decreased average realized price.

Royalties

Harvest pays Crown, freehold and overriding royalties to the owners of mineral rights from which production is generated. These royalties vary for each property and product and our Crown royalties are based on a sliding scale dependent on production volumes and commodity prices.

Throughout the first quarter of 2011, royalties as a percentage of gross revenue averaged 12.8% (2010 – 15.4%). The decrease from the first quarter in 2010 is primarily due to adjustments made to Freehold Mineral Tax estimates for 2009 and 2010 in the first quarter of 2011 combined with the impact of lower gas prices in 2011.

Operating Expenses

	Three Months Ended March 31				
	2011	Per BOE	2010	Per BOE	Per BOE Change
Operating expense					
Power and fuel	\$ 21,551	\$ 4.49	\$ 13,045	\$ 2.89	\$ 1.60
Well servicing	16,912	3.52	12,917	2.86	0.66
Repairs and maintenance	12,871	2.68	10,639	2.35	0.33
Lease rentals and property tax	7,768	1.62	8,116	1.80	(0.18)
Labor - internal	7,048	1.47	6,254	1.38	0.09
Labor - contract	4,073	0.85	4,021	0.89	(0.04)
Chemicals	3,826	0.80	3,801	0.84	(0.04)
Trucking	2,554	0.53	2,105	0.47	0.06
Processing and other fees	1,307	0.27	3,915	0.87	(0.60)
Other	5,685	1.19	(560)	(0.12)	1.31
Total operating expenses	\$ 83,595	\$ 17.42	\$ 64,253	\$ 14.23	\$ 3.19
Transportation and marketing	\$ 3,003	\$ 0.63	\$ 2,207	\$ 0.49	\$ 0.14

First quarter 2011 operating costs totaled \$83.6 million, an increase of \$19.3 million as compared to the same period in the prior year. The increase in operating costs is attributable to the acquisition of assets at the end of September 2010 and February 2011 combined with increased power and fuel costs, well servicing and repairs and maintenance.

Operating costs on a per barrel basis have increased to \$17.42/boe as compared to \$14.23/boe in the first quarter of 2010. The 22% increase on a per barrel basis is substantially attributed to higher power and fuel costs, as well as higher activity levels on well servicing and repairs and maintenance.

(\$ per boe)	Three Months Ended March 31		
	2011	2010	Change
Electric power and fuel costs	\$ 4.49	\$ 2.89	\$ 1.60
Realized loss (gain) on electricity risk management contracts	(0.47)	0.22	(0.69)
Net electric power and fuel costs	\$ 4.02	\$ 3.11	0.91
Alberta Power Pool electricity price (\$ per MWh)	\$ 83.34	\$ 40.89	\$ 42.45

Power and fuel costs, comprised primarily of electric power costs, represented approximately 26% of our total operating costs during the first quarter of 2011 (2010 – 20%). The 55% increase from the first quarter of 2010 in power and fuel costs is primarily attributable to the increase in the power price. The average Alberta electric power

price of \$83.34/MWh in the first quarter of 2011 was 104% higher than the first quarter 2010 average price of \$40.89/MWh.

First quarter 2011 transportation and marketing expense increased marginally from the first quarter of 2010. These costs relate primarily to delivery of natural gas to Alberta's natural gas sales hub, the AECO Storage Hub, and our cost of trucking clean crude oil to pipeline receipt points. As a result, the total dollar amount of costs fluctuates in relation with our production volumes.

Operating Netback

(\$ per BOE)	Three Months Ended March 31		
	2011	2010	Change
Petroleum and natural gas sales	\$ 59.19	\$ 60.17	(2%)
Royalties	(7.47)	(9.25)	(19%)
Operating expense	(17.42)	(14.23)	22%
Transportation expense	(0.63)	(0.49)	29%
Operating netback prior to hedging ⁽¹⁾	33.67	36.20	(7%)
Hedge gain (loss)	(0.63)	-	-
Operating netback after hedging ⁽¹⁾	\$ 33.04	\$ 36.20	(9%)

(1) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.

Harvest's operating netback represents the net amount realized on a per boe basis after deducting directly related costs. In the first quarter of 2011, our operating netback prior to hedging decreased by \$2.53/boe or 7% compared to the same period in the prior year. The decrease in our operating netback is primarily attributed to increased operating expenses and lower revenues, partially offset by lower royalties.

General and Administrative ("G&A") Expense

	Three Months Ended March 31		
	2011	2010	Change
Total G&A	\$ 13,522	\$ 12,417	9%
G&A per boe (\$/boe)	\$ 2.82	\$ 2.75	3%

For the three months ended March 31, 2011, G&A expense increased nominally by \$1.1 million from \$12.4 million in the same quarter of 2010. The increase in G&A is primarily due to increased salary expense to accommodate Harvest's growing business. Approximately 85% of the G&A expenses are related to salaries and other employee related costs. Harvest does not have a stock option program, however there is a long-term cash incentive program.

Depletion, Depreciation and Amortization

	Three Months Ended March 31		
	2011	2010	Change
Depletion, depreciation and amortization	\$ 121,344	\$ 116,334	4%
Per BOE (\$/BOE)	\$ 25.28	\$ 25.76	(2%)

Our overall depletion, depreciation and amortization ("DDA") expense for the three months ended March 31, 2011 was \$5.0 million (4%) higher compared to the same period in the prior year, mainly due to higher sales volumes.

Capital Expenditures

	Three Months Ended March 31		
	2011	2010	Change
Drilling and completion	\$ 137,599	\$ 71,731	92%
Well equipment, pipelines and facilities	57,689	29,505	96%
Geological and geophysical	10,800	8,550	26%
Land and undeveloped lease rentals	5,690	144	3,851%
Capitalized G&A expenses	2,450	3,407	(28%)
Furniture, leaseholds and office equipment	646	189	242%
Conventional oil and gas capital expenditures	214,874	113,526	89%
BlackGold oil sands	22,775	-	100%
Total development capital expenditures excluding acquisitions	\$ 237,649	\$ 113,526	109%

Conventional

The first quarter of 2011 was particularly active for Harvest as the Company executed significant drilling programs in its large resource oil pools. In Hay River Harvest drilled 38.0 gross (38.0 net) wells pursuing medium gravity oil in the Bluesky formation for a total expenditure of \$49.1 million. Included in the Hay River program were three exploration wells drilled to evaluate extensions of the Bluesky oil pool and the preliminary results would indicate commercial oil deposits beyond the current boundaries of the pool. At Red Earth, Harvest drilled 23.0 gross (21.0 net) wells including 15 horizontal wells into the Slave Point light oil formation using multi-stage fractured completions for a total expenditure of \$67.6 million. At Kindersley, Harvest drilled 7.0 gross (7.0 net) horizontal wells into the Viking light oil formation all completed using multistage fracture technology for a total expenditure of \$10.1 million. Harvest's SE Saskatchewan light oil drilling program included 3.0 gross (3.0 net) wells. The Company's heavy oil drilling program included 2.0 gross (2.0 net) wells at Suffield and 8.0 gross (8.0 net) wells at Lloydminster for a total expenditure of \$15.1 million. At Rimbey/Markerville Harvest drilled 9.0 gross (4.5 net wells) for a total expenditure of \$18.4 million including a follow-up Ellerslie light oil well that tested at over 600 boe/d. Harvest also drilled a successful Montney exploration oil well in West Central Alberta and is in the process of evaluating the productivity and areal extent of this pool.

Harvest continued to invest in undeveloped land participating in Crown and other land sales acquiring a total of 19,757 net hectares for a total cost of \$5.7 million.

Below is a summary of the wells drilled by Harvest in the first quarter of 2011. Harvest overall success rate was 98%.

Area	Gross	Net
Hay River	38.0	38.0
Red Earth	23.0	21.0
Rimbey/Markerville	9.0	4.5
Lloydminster Heavy Oil	8.0	8.0
Kindersley	7.0	7.0
SE Saskatchewan	3.0	3.0
Crossfield	3.0	2.4
Suffield	2.0	2.0
Other Areas	10.0	7.0
Oil sands	12.0	12.0
Total	115.0	104.9

Oil sands

The BlackGold oil sands project continued to progress in the first quarter of 2011 with site clearing and preparation for construction of the central processing facility as well as the drilling of 12 observation wells to monitor the performance and efficiency of the in-situ SAGD process, for a total expenditure of \$22.8 million.

BlackGold is located in northeastern Alberta and has existing Energy Resources Conservation Board (“ERCB”) approval for phase 1 project of 10,000 bbl/d and an application has been made for a phase 2 project that is targeted to increase production to 30,000 bbl/d. Approval for phase 2 of the project is expected from the ERCB in 2012. The project will utilize steam assisted gravity drainage, a proven technology that uses innovation in horizontal drilling, with the first oil expected in early 2013 at an estimated production of 10,000 bbl/d.

Decommissioning Liabilities

In connection with property acquisitions and development activities, Harvest records the related decommissioning liabilities in the same year the expenditures occur. The offset to the decommissioning liabilities is capitalized as part of the carrying amount of the assets and are depleted and depreciated over the estimated net proved developed reserves. Once the initial decommissioning liability is measured, it is adjusted at the end of each period to reflect the passage of time as well as changes in the estimated future cash flows of the underlying obligation. Harvest’s decommissioning liabilities increased by \$50.3 million during the first three months of 2011 mainly as a result of \$38.0 million of liabilities acquired from Hunt, combined with the unwinding of discount of \$5.7 million, new liabilities of \$5.5 million incurred on new drills and a revision of estimates of \$3.1 million, partially offset by \$2.0 million of asset settlements.

Goodwill

Goodwill is recorded when the purchase price of an acquired business exceeds the fair value of the net identifiable assets and liabilities of that acquired business. At March 31, 2011, Harvest had \$404.9 million (December 31, 2010 - \$404.9 million) of goodwill on the balance sheet related to the Upstream segment.

DOWNSTREAM OPERATIONS
Summary of Financial and Operating Results

	Three Months Ended March 31		
	2011	2010	Change
FINANCIAL			
Refined products sales ⁽¹⁾	\$ 973,509	\$ 339,505	187%
Purchased products for processing and resale	861,791	331,396	160%
Gross margin ⁽²⁾	111,718	8,109	1,278%
Operating expense	26,083	28,655	(9%)
Purchased energy expense	27,856	15,430	81%
Marketing expense	1,694	951	78%
General and administrative	441	441	-
Depreciation and amortization	19,400	20,445	(5%)
Earnings (Loss) from operations ⁽²⁾	\$ 36,244	\$ (57,813)	163%
Capital expenditures	\$ 35,879	\$ 8,683	313%
OPERATING			
Feedstock volume (bbl/d) ⁽³⁾	97,438	41,016	138%
Yield (% of throughput volume) ⁽⁴⁾			
Gasoline and related products	32%	24%	33%
Ultra low sulphur diesel and jet fuel	35%	29%	21%
High sulphur fuel oil	29%	34%	(15%)
	96%	87%	10%
Average refining gross margin (US\$/bbl) ⁽⁵⁾	10.96	-	100%

(1) Refined product sales and purchased products for processing and resale are net of intra-segment sales of \$116.4 million and \$87.7 million for the three months ended March 31, 2011 and March 31, 2010, respectively, reflecting the refined products produced by the refinery and sold by the marketing division.

(2) These are non-GAAP measures; please refer to "Non-GAAP Measures" in this MD&A.

(3) Barrels per day are calculated using total barrels of crude oil feedstock and vacuum gas oil.

(4) Based on production volumes after adjusting for changes in inventory held for resale.

(5) Average refining gross margin is calculated based on per barrel of feedstock throughput.

Refining Benchmark Prices

	Three Months Ended March 31		
	2011	2010	Change
WTI crude oil (US\$/bbl)	94.10	78.71	20%
Brent crude oil (US\$/bbl)	105.01	77.32	36%
Mars premium (discount) (US\$/bbl)	7.45	(2.93)	354%
RBOB crack spread (US\$/bbl)	17.78	9.47	88%
Heating Oil crack spread (US\$/bbl)	23.95	7.29	229%
High Sulphur Fuel Oil discount (US\$/bbl)	(5.51)	(7.97)	(31%)
Canadian / U.S. dollar exchange rate	1.014	0.961	6%

Summary of Gross Margins

Three Months Ended March 31

	2011		2010			
	Volumes (000's bbls)	(US\$/bbl)	Volumes (000's bbls)	(US\$/ bbl)		
Refinery Sales						
Gasoline products	\$ 345,883	3,194	\$ 109.81	\$ 85,364	947	\$ 86.63
Distillates	374,391	3,091	122.82	112,307	1,215	88.83
High sulphur fuel oil	212,038	2,475	86.87	113,369	1,530	71.21
	932,312	8,760	107.92	311,040	3,692	80.96
Refinery Feedstock⁽¹⁾						
Middle Eastern	809,752	8,648	94.95	179,456	2,249	76.68
Russian	1,311	14	94.95	112,583	1,358	79.67
South American	-	-	-	4,484	62	69.50
	811,063	8,662	94.95	296,523	3,669	77.67
Vacuum Gas Oil	10,050			1,861		
Other ⁽²⁾	16,396			13,116		
Refinery gross margin ⁽³⁾	\$ 94,803		\$ 10.96	\$ (460)		\$ -
Marketing						
Sales ⁽¹⁾	\$ 157,583			\$ 116,151		
Cost of products sold	140,668			107,582		
Marketing gross margin ⁽³⁾	\$ 16,915			\$ 8,569		

(1) Cost of feedstock includes all costs of transporting the crude oil to the refinery in Newfoundland.

(2) Includes inventory adjustments, additives and blend stocks

(3) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A

Feedstock throughput averaged 97,438 bbl/d in the first quarter of 2011, an increase of 138% over 41,016 bbl/d average feedstock throughput in the first quarter of the prior year. Throughput rates in 2011 were reflective of normal operations. The substantially lower throughput rate during the three months ended March 31, 2010 was the result of a ten-week unplanned shutdown.

The increase in the refinery gross margin for the three months ended March 31, 2011 as compared to the first quarter of the prior year reflects the significantly stronger global refinery margin and improved operational performance, partially offset by the increase in the sour crude premium. The Downstream operations' refining gross margin is impacted by several factors including the configuration of the refinery product yields, timing of sales under the Supply and Offtake Agreement ("SOA") with Vitol Refining S.A., transportation costs, location differentials, quality differentials and variability in our throughput volume over a given period of time.

Refinery sales increased by \$621.3 million in the first quarter of 2011 from \$311.0 million in the same quarter of 2010 due to the increase in sales volumes and higher market prices for refined product.

The cost of refinery feedstock in the first quarter of 2011 was a US\$0.85/bbl premium to the benchmark WTI as compared to a discount of US\$1.04/bbl in the same period of the prior year, with the change from a discount to a premium in correlation with the market sour crude differential.

During the three months ended March 31, 2011, the Canadian dollar continued to strengthen as compared to the US dollar. The strengthening of the Canadian dollar in 2011 has negatively impacted the contribution from the refinery operations relative to the prior year as substantially all of its gross margin, cost of purchased energy and marketing expense are denominated in U.S. dollars.

Operating Expenses

Three Months Ended March 31

	2011			2010		
	Refining	Marketing	Total	Refining	Marketing	Total
Operating cost	\$ 21,577	\$ 4,506	\$ 26,083	\$ 25,968	\$ 2,687	\$ 28,655
Purchased energy	27,856	-	27,856	15,430	-	15,430
	\$ 49,433	\$ 4,506	\$ 53,939	\$ 41,398	\$ 2,687	\$ 44,085
(\$/bbl of feedstock throughput)						
Operating cost	\$ 2.46	-	-	\$ 7.04	-	-
Purchased energy	3.18	-	-	4.18	-	-
	\$ 5.64	-	-	\$ 11.22	-	-

During the three months ended March 31, 2011, refining operating expenses of \$2.46/bbl decreased 65% as compared to the \$7.04/bbl in the prior period. The lower cost in the first quarter of 2011 is indicative of normal operations whereas the higher cost per barrel in the prior year reflects higher maintenance costs and lower average daily throughput.

Purchased energy, consisting of low sulphur fuel oil ("LSFO") and electricity, is required to provide heat and power to refinery operations. The 81% increase in purchased energy costs in the first quarter of 2011 over the \$15.4 million in the prior period is due to a volume variance of \$10.8 million combined with a price variance of \$1.6 million. The decrease in the per barrel cost of energy is attributable to the increased throughput rate in the first quarter of 2011.

Capital Expenditures

Capital spending for the three months ended March 31, 2011 totaled \$35.9 million (2010 - \$8.7 million) relating to various capital improvement projects including \$14.6 million (2010 - \$5.9 million) for the debottlenecking project.

Depreciation and Amortization Expense

Three Months Ended March 31

	2011			2010		
	Refining	Marketing	Total	Refining	Marketing	Total
Depreciation and amortization	\$ 18,479	\$ 921	\$ 19,400	\$ 19,573	\$ 872	\$ 20,445

The process units are amortized over an average useful life of 20 to 30 years.

RISK MANAGEMENT, FINANCING AND OTHER
Cash Flow Risk Management

The following is a summary of Harvest's risk management contracts outstanding at March 31, 2011:

Contracts not Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Fair value
30 MWh	Electricity price swap contracts	Jan - Dec 2011	Cdn \$46.87	\$ 4,561
USD\$16,900	Foreign exchange contract	Mar - April 2011	\$0.9714Cdn/USD	(29)
				\$ 4,532

Contracts Designated as Hedges

Contract quantity	Type of Contract	Term	Contract Price	Fair value
8200 bbls/day	Crude oil price swap contract	Jan - Dec 2011	US \$91.23/bbl	\$ (36,525)
5000 bbls/day	Crude oil price swap contract	Feb - Dec 2011	US \$95.82/bbl	(16,152)
3200 bbls/day	Crude oil price swap contract	Mar - Dec 2011	US \$95.87/bbl	(10,295)
16,400 bbls/day				\$ (62,972)

For the three months ended March 31, 2011, the total realized gain and unrealized gain recognized in the consolidated statement of income relating to the electricity price swap contracts was \$2.3 million and \$3.6 million respectively. In comparison to the first quarter of 2010, Harvest had electricity price swap contracts in place for 25.0 MWh at an average contract price of \$59.22/MWh. Harvest recognized a realized loss of \$1.0 million and an unrealized loss of \$0.1 million in 2010 from these contracts.

During the first quarter of 2011, Harvest entered into foreign exchange forward contracts to reduce its exposure to fluctuations in the U.S. dollar exchange rate. For the three months ended March 31, 2011, Harvest recognized an unrealized loss of \$0.03 million.

Harvest entered into crude oil swap contracts and designated them as cash flow hedges to reduce its exposure to crude oil price fluctuations in its forecast petroleum sales. The effective portion of the unrealized loss of \$40.4 million (net of deferred tax asset of \$14.7 million) relating to the hedges was included in other comprehensive income (2010 – \$nil). The ineffective portion of the cash flow hedges recognized in the consolidated income statement for the three months ended March 31, 2011 was \$0.3 million (2010 – \$nil). During the first quarter of 2011, a loss of \$3.0 million (2010 - \$nil) was reclassified from accumulated other comprehensive income to petroleum, natural gas, and refined product sales.

Financing Costs

	Three Months Ended March 31		
	2011	2010	Change
Bank loan	\$ 1,633	\$ 1,370	19%
Convertible Debentures	12,327	11,927	3%
Senior notes	8,776	3,984	120%
Amortization of deferred finance charges	281	1,986	(86%)
Interest and other financing charges	\$ 23,017	\$ 19,267	19%
Capitalized interest	(1,296)	-	-
	21,721	19,267	13%
Unwinding of discount on decommissioning liabilities	5,796	5,723	1%
Total finance costs	\$ 27,517	\$ 24,990	10%

Interest and other financing charges, including the amortization of related financing costs, increased by \$3.8 million (19%) compared to the prior year interest expense. The increase from prior year is primarily due to the increased amount of senior notes principle outstanding at March 31, 2011, compared to 2010.

Interest expense on Harvest's bank loan was \$1.6 million (2010 - \$1.4 million), in the first quarter of 2011, which was relatively consistent with the same quarter in the prior year. During the quarter, interest charges on our bank loan reflected an effective interest rate of 3.06% (2010 - 1.56%).

Interest expense on our senior notes has increased by \$4.8 million from the first quarter of 2011 due to the higher principle balance of the 6% senior notes issued in the fourth quarter of 2010, as compared to the 7% senior notes outstanding during the first quarter of 2010, which were fully redeemed by the end of the 2010 fiscal year.

During the first quarter of 2011, \$1.3 million (2010 - \$nil) of interest expense was capitalized to the BlackGold oil sands project and the Downstream debottlenecking project.

Currency Exchange

Currency exchange gains and losses are attributed to the changes in the value of the Canadian dollar relative to the U.S. dollar on our U.S. dollar denominated 6% Senior Notes as well as any other U.S. dollar cash balances. At March 31, 2011 the Canadian dollar has strengthened compared to March 31, 2010 and December 31, 2010, resulting in an unrealized foreign exchange gain of \$9.6 million for the three months ended March 31, 2011 (2010 - \$6.7 million loss). The realized foreign exchange gain was \$0.2 million for the three months ended March 31, 2011 (2010 - \$0.4 million loss), resulting from the settlement of U.S. dollar denominated transactions.

The cumulative translation adjustment recognized in other comprehensive income represents the translation of the Downstream operation's U.S. dollar functional currency financial statements to Canadian dollars using the current rate method. During the first quarter of 2011, the strengthening of the Canadian dollar relative to the U.S. dollar resulted in \$23.9 million of a net cumulative translation loss (2010 - \$26.9 million) as the weaker U.S. dollar results in a decrease in the relative value of the net assets in our Downstream operations.

Deferred Income Taxes

For the three months ended March 31, 2011, Harvest has recorded a deferred income tax expense of \$3.8 million. Our deferred income tax liability will fluctuate during each accounting period to reflect changes in the respective temporary differences between the book value and tax basis of their assets as well as further legislative tax rate changes. Currently, the principal source of our temporary differences is the difference between the net book value of the Company's property, plant and equipment versus their unclaimed tax pools.

Contractual Obligations and Commitments

Harvest has contractual obligations and commitments entered into in the normal course of operations including the purchase of assets and services, operating agreements, transportation commitments, sales commitments, royalty obligations, and land lease obligations. These obligations are of recurring and consistent nature and impact cash flow in an ongoing manner. As at March 31, 2011, Harvest has the following significant contractual commitments:

	Maturity				Total
	1 year	2-3 years	4-5 years	After 5 years	
Debt Repayments ⁽¹⁾	\$ -	\$529,394	\$ 236,579	\$ 484,800	\$1,250,773
Debt interest payments ⁽¹⁾	94,959	151,587	87,483	49,995	384,024
Purchase Commitments ⁽²⁾	208,241	102,380	-	-	310,621
Operating Leases	8,122	14,264	6,256	423	29,065
Transportation Agreements ⁽³⁾	11,207	14,848	5,432	3,124	34,611
Feedstock & other purchase commitments	719,992	-	-	-	719,992
Pension contributions ⁽⁴⁾	5,271	8,570	7,883	3,019	24,743
Decommissioning liabilities ⁽⁵⁾	20,932	34,479	39,855	1,297,519	1,392,785
Total	\$1,068,724	\$855,522	\$383,488	\$1,838,880	\$4,146,614

(1) Assumes constant foreign exchange rate.

(2) Relates to drilling commitments, AFE commitments, BlackGold oil sands project commitment and Downstream purchase commitments.

(3) Relates to firm transportation commitments.

(4) Relates to the expected contributions to employee benefit plans.

(5) Represents the undiscounted obligation by period.

Off Balance Sheet Arrangements

As of March 31, 2011, there were no off balance sheet arrangements in place.

LIQUIDITY

For the three months ended March 31, 2011, cash flow from operating activities was \$146.8 million (2010 - \$78.1 million) including \$32.8 million (2010 - \$6.1 million) provided by a reduction in non-cash working capital and \$2.0 million (2010 - \$5.7 million) used in the settlement of asset retirement obligations. At March 31, 2011, Harvest's financing activities provided \$524.1 million of cash, including \$505.4 million of capital injection from KNOC and \$18.6 million of net borrowings from its credit facility. The capital injection from KNOC was used to fund the acquisition of the Hunt assets. Harvest funded \$275.5 million of capital expenditures and net asset acquisition activity during the first quarter of 2011 with cash generated from operating activities and financing activities.

Harvest had working capital deficiency of \$146.0 million at March 31, 2011, as compared to a \$2.1 million deficiency at December 31, 2010. The negative working capital at March 31, 2011 is primarily related to the use of the \$40 million deposit paid in 2010 for the Hunt acquisition, increased capital accruals to fund capital expenditures in the first quarter of 2011 and the increased liability arising from the risk management contracts. The Company's working capital is expected to fluctuate from time to time, and will be funded from cash flows from operations and borrowings from Harvest's credit facility, as required.

Through a combination of cash available at March 31, 2011, cash from operating activities and available undrawn credit facility, it is anticipated that Harvest will have adequate liquidity to fund future operations, debt repayments and forecasted capital expenditures (excluding major acquisitions). Refer to the "Contractual Obligations and Commitments" section above for Harvest's future commitments and the discussion below on certain significant items.

BlackGold Oil Sands Project

Harvest signed a \$311 million engineering, procurement and construction ("EPC") contract in 2010 for phase 1 of our oil sands project, of which \$55.1 million (including a \$31.1 million deposit), has been paid to date at March 31,

2011. Phase 1 development of the BlackGold assets is expected to be completed by early 2013. Harvest expects to fund the future capital expenditures with capital injections funded by KNOC, future cash flow from operating activities and the undrawn credit facility.

Supply and Offtake Agreement (“SOA”)

The SOA provides working capital financing for its inventories of crude oil and substantially all refined products held for sale. Pursuant to the SOA, Harvest estimates that Vitol held inventories of VGO and crude oil feedstock (both delivered and in-transit) valued at approximately \$609.6 million at March 31, 2011 and \$774.7 million at December 31, 2010, which would have otherwise been assets of Harvest. Subsequent to March 31, 2011 Vitol provided Harvest a six-month notice to terminate the SOA effective November 1, 2011. Harvest is currently in the process of evaluating various options to procure crude feedstock subsequent to the termination date.

CAPITAL RESOURCES

The following table summarizes our capital structure as at March 31, 2011 and December 31, 2010 as well as provides the key financial ratios contained in Harvest’s revolving credit facility.

	March 31, 2011	December 31, 2010
Debts		
Revolving credit facility ⁽¹⁾	\$ 32,000	\$ 14,000
6½% senior notes, at principal amount (US\$500 million) ⁽²⁾	484,800	497,300
Convertible debentures, at principal amount	733,973	733,973
Total Debt	\$ 1,250,773	\$ 1,245,273
Shareholder’s Equity		
386,078,649 issued at March 31, 2011	\$ 3,495,924	\$ -
335,535,047 issued at December 31, 2010	-	\$ 3,016,855
Total Capitalization	\$ 4,746,697	\$ 4,262,128
Financial Ratios⁽³⁾		
Secured Debt to Annualized EBITDA ^{(4) (5)}	0.08	0.06
Total Debt to Annualized EBITDA ^{(4) (6)}	1.89	2.38
Senior Debt to Total Capitalization ^{(5) (7)}	1%	1%
Total Debt to Total Capitalization ^{(6) (7)}	29%	33%

(1) Net of transaction costs – \$29.7 million (2010 - \$11.4 million)

(2) Principal amount converted at the period end exchange rate.

(3) Calculated based on Harvest’s credit facility covenant requirements (see note 11 of the March 31, 2011 financial statements)

(4) Annualized Earnings Before Interest, Taxes, Depreciation and Amortization based on twelve month rolling average.

(5) “Senior Debt” includes letter of credit, bank debt and guarantees

(6) “Total Debt” includes the secured debt, convertible debentures and notes

(7) “Total Capitalization” includes total debt and shareholder’s equity

Credit Facility

On April 29, 2011, Harvest’s revolving credit facility (“the Facility”) was extended by 2 years to April 30, 2015. The minimum rate charged on the Facility was also amended from 200 bps to 175 bps over bankers’ acceptance rates as long as Harvest’s secured debt to EBITDA ratio remains below or equal to one. The borrowing capacity of the Facility remains at \$500 million and the financial covenants calculation as disclosed above remain unchanged.

SUMMARY OF QUARTERLY RESULTS

The following table and discussion highlights our first quarter of 2011 relative to the preceding 4 quarters:

	2011		2010		
	Q1	Q4	Q3	Q2	Q1
Revenue ⁽¹⁾	\$ 1,218,702	\$ 1,255,403	\$ 951,384	\$ 1,024,565	\$ 569,480
Net income (loss)	37,961	(12,332)	(26,083)	(22,796)	(19,952)
Cash from operating activities	146,828	131,746	97,555	122,076	78,107
Total long-term financial debt	1,216,162	1,239,024	1,251,658	1,153,972	1,150,321
Total assets	6,041,118	5,388,740	5,303,486	4,764,141	4,757,865
Upstream total daily sales volumes (boe/d)	53,331	50,054	47,777	49,597	50,178
Upstream realized price prior to hedges (\$/boe)	\$ 59.19	\$ 56.03	\$ 52.71	\$ 54.41	\$ 60.17
Downstream average daily throughput (bbl/d)	97,438	111,317	96,514	94,833	41,016
Downstream average refining margin (\$US/bbl)	\$ 10.96	\$ 6.13	\$ 3.02	\$ 8.56	\$ -

(1) Revenues are comprised of revenues net of royalties from Upstream operations as well as sales of refined products from Downstream operations.

The quarterly revenues and cash from operating activities are impacted by the Upstream sales volume and realized prices and Downstream throughput volume and gross margins. Significant items that impacted Harvest's quarterly revenues include:

- ◆ Revenues were the highest in the fourth quarter of 2010, followed by the first quarter of 2011, reflecting higher commodity prices, strong sales volumes in the Upstream operations and improved throughput volumes from the Downstream operations.
- ◆ The increasing Upstream sales volumes since the third quarter of 2010 were mainly attributable to the acquisition of oil and gas assets in the third quarter of 2010 and first quarter of 2011.
- ◆ Downstream's refining margin increased in the fourth quarter of 2010, and then more prominently in the first quarter of 2011, reflecting the improving global refining crack spreads.
- ◆ Revenues were the lowest in the first quarter of 2010, primarily due to the shutdown of the refinery units in the Downstream operations.

Net income (loss) reflects both cash and non-cash items. Changes in non-cash items including future income tax, DDA&A expense, impairment of long-lived assets, unrealized foreign exchange gains and losses and unrealized gains on risk management contracts impact net income from period to period. For these reasons, the net income (loss) may not necessarily reflect the same trends as net revenues or cash from operating activities, nor is it expected to.

Total assets have increased significantly from the second quarter of 2010 to the third quarter of 2010 due to the acquisition of the BlackGold assets in August and certain oil and gas assets in September 2010. The significant increase in total assets in the first quarter of 2011 was due to the Hunt acquisition and Harvest's active winter drilling programs.

OUTLOOK

We were very pleased with Harvest's financial and operational performance in the first quarter.

A strengthening Canadian dollar relative to the US dollar, a widening differential between WTI oil prices and ocean borne crude oil prices and an increased spread between the light and heavy oil prices muted the increase in crude oil prices relative to what would have occurred otherwise. Despite this, the 2011 realized liquids prices were higher than expectations and given the liquids-weighted nature of the Upstream asset base, we were very pleased with the Upstream financial performance. While crude oil prices remain volatile, it appears that oil prices will remain attractive with ongoing growth in world demand. On natural gas prices, we have seen stabilization at current levels as lower drilling has reduced supply relative to demand and the first sign that even lower prices are unlikely and an improvement may be coming in the future. Refining margins have also shown significant improvement as global demand for refined products continues to increase.

As anticipated, the first quarter of 2011 was active for our Upstream business with our oil-weighted asset base. Leveraging off the success achieved in our first quarter capital investment program, we are increasing the Upstream capital investment by \$116 million to \$566 million. We expect production to average approximately 60,000 boe/d for 2011 with strong performance from our assets and capital investment program offsetting the production reductions associated with the non-operated Rainbow Pipeline disruption, the impact of northern Alberta forest fires and flooding in SE Saskatchewan. Due to these recent events, Harvest's second quarter production is now expected to average approximately 56,000 boe/d.

Production is expected to be approximately 70% crude oil and liquids with the remainder natural gas. For the balance of 2011, our capital spending will continue to focus on our active drilling program and investment in Enhanced Oil Recovery (EOR) projects. Our drilling plan will focus on oil/liquids weighted opportunities and also on economic growth opportunities. The benefit of the incremental capital investment program will largely occur in 2012 as wells are tied in. We are forecasting general and administrative costs at approximately \$2.73 per boe and operating costs to be \$14.54 per boe.

Downstream operational performance was largely as expected in the first quarter with the improved global refining margins resulting in better than expected financial performance. With a longer turnaround than originally anticipated as we advance our debottleneck projects, we are now anticipating throughput for the second quarter and the year to be approximately 38,000 and 85,000 bbl/d respectively, with unit costs of approximately \$7.60/bbl for the remainder of 2011. Capital spending for the year remains at approximately \$199 million.

Harvest has managed fluctuations in interest rates through a mix of variable and fixed rate financing. Our bank borrowings under our credit facility totaled \$29.7 million at March 31, 2011, representing approximately 3% of our total debt. As a result, the majority of our interest rate exposure is fixed, reducing our exposure to increasing interest rates.

While we do not speculate on commodity prices or refining margins, we may enter into commodity price risk management contracts from time-to-time to mitigate some portion of our price volatility with the objective of stabilizing our cash flow from operating activities. For the remainder of 2011, we have 16,400 bbl/d WTI hedges under contract with an average price of US\$93.54/bbl.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

On January 1, 2011, Harvest adopted IFRS, with January 1, 2010 as the "transition date". A full description of our new accounting policies is outlined in Note 3 to our unaudited interim consolidated financial statements for the three months ended March 31, 2011. Additionally, transition date information and reconciliations between IFRS and Canadian GAAP for comparative periods in 2010 are described in Note 22 to our unaudited interim consolidated financial statements. The adoption of IFRS has not led to any changes in the business operations, capital strategies or funds flow of the Company. Harvest's nature and type of critical accounting estimates remain unchanged upon transition to IFRS; however some accounting differences exist relating to the recognition and measurement of these estimates, which are discussed below. A description of these estimates is outlined in Note 2 to our unaudited interim consolidated financial statements for the three months ended March 31, 2011.

Significant Accounting Differences and Accounting Policies

The following outlines significant accounting policy choices and differences between IFRS and Canadian GAAP applicable from the transition date.

Depletion and Depreciation

Under IFRS, Harvest aggregates its property, plant and equipment (“PP&E”) into major components for depletion, depreciation and amortization. For the Upstream PP&E, costs accumulated within each component are depleted using the unit-of-production method based on estimated proved developed reserves, whereas under Canadian GAAP, estimated proved reserves were used. The carrying value of the PP&E under IFRS differed from that under Canadian GAAP as a result of changes in the accounting of decommissioning liabilities and dispositions of PP&E as discussed below.

Exploration & Evaluation (E&E) Assets

Under IFRS, costs incurred prior to obtaining the legal right to explore must be expensed while under Canadian GAAP these costs were capitalized in PP&E. Once the legal rights to explore are acquired, all costs directly associated with the E&E are capitalized. E&E costs are those expenditures incurred for identifying, exploring and evaluating new pools in an area where technical feasibility and commercial viability has not yet been determined.

When technical feasibility and commercial viability are established, the relevant expenditure is transferred to PP&E after impairment is assessed and any resulting impairment loss is recognized as E&E expense. If there are no future plans for development activity and technical feasibility or commercial viability is not expected, E&E assets are assessed for impairment.

Impairment

Under IFRS, impairment testing is performed at the cash-generating unit (“CGU”) level, which is lower than the country level under Canadian GAAP. As a consequence, impairment provisions are more likely to occur. Under IFRS, impairments other than goodwill impairments may be reversed in the event future conditions change. A one-step approach is used for the testing and measuring impairment under IFRS. Under this approach, the asset or the CGU carrying value is compared against its recoverable amount. Under Canadian GAAP a two-step approach was used; the first step is comparing the asset carrying value with undiscounted cash flows to determine if an impairment exists. If the first step fails, then impairment is measured by comparing the asset carrying value to its fair value.

Decommissioning Liabilities

Under IFRS, the discount rate is adjusted each reporting period to reflect the current market rate. Recognition criteria under Canadian GAAP and IFRS also differ as under Canadian GAAP, ARO was recorded when a legal obligation exists to abandon an asset, whereas under IFRS, decommissioning liability should be recognized when a legal or constructive obligation exists.

Dispositions

Under Canadian GAAP, proceeds on the dispositions of oil and gas properties were credited to the full cost pool and no gain or loss was recognized unless the effect of the sale would have changed the DD&A rate by 20% or more. Under IFRS, gains and losses are recognized on all oil and gas property dispositions and calculated as the difference between net proceeds and the carrying value of the net assets disposed.

Acquisitions

Under IFRS, acquisition costs for business combinations are expensed. Under Canadian GAAP, such costs were capitalized as part of PP&E.

Post-employment benefits

Under Canadian GAAP, the Company amortized actuarial gains and losses to income over the estimated average remaining service life, with disclosure of the unrecognized amount in the notes to the consolidated financial statements. Under IFRS, actuarial gains and losses are recognized directly in other comprehensive income in the period in which they occur.

Deferred Income Taxes

Under IFRS, Harvest is required to recognize future income taxes arising from the difference between historical and current exchange rates on the translation of non-monetary assets, whereas Canadian GAAP precludes this.

RECENT PRONOUNCEMENTS

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company.

- ◆ Effective January 1, 2013, Harvest will be required to adopt IFRS 9, “Financial Instruments”, which is the result of the first phase of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Harvest is in the process of determining the potential impact on the adoption of this new standard.
- ◆ On May 12, 2011 the IASB issued three new standards: IFRS 10, “Consolidated Financial Statements”, IFRS 11, “Joint Arrangements” and IFRS 12, “Disclosure of Interest in Other Entities”. These new standards are effective for annual periods beginning on or after January 1, 2013. IFRS 10 replaces the consolidation requirements in SIC-12, “Consolidation – Special Purpose Entities” and a portion of IAS 27, “Consolidated and Separate Financial Statements”. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case) and requires a single method to account for interests in jointly controlled entities (equity method). IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet. Harvest will assess for the potential impact on the adoption of these new standards.

OPERATIONAL AND OTHER BUSINESS RISKS

Harvest’s operational and other business risks remain unchanged from those discussed in our MD&A for the year ended December 31, 2010 as filed on SEDAR at www.sedar.com, except for the addition of the following risks:

Upstream Operations

- ◆ The operation of petroleum and natural gas properties requires physical access for people and equipment on a regular basis which could be affected by weather, accidents, government regulations or third party actions.

Downstream Operations

- ◆ The refinery utilizes a SOA to facilitate the supply of crude feedstock to the refinery and the offtake of refined products. This agreement has termination rights and replacement arrangements may not be as favorable and may result in an increase in costs.
- ◆ The operation of the refinery requires physical access for people and equipment on a regular basis which could be affected by weather, accidents, government regulations or third party actions.
- ◆ The demand for skilled labor remains high in Newfoundland and the supply of skilled labor remains limited. There is a risk that we may have difficulty in sourcing skilled labor and the cost of replacement labor would result in increased operating and capital costs.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with the adoption of IFRS, Harvest established additional internal controls over financial reporting, as necessary, to review and validate the conversion to IFRS and relevant transitional activities including restatement

of comparative financial information for 2010 and related disclosures. There were no other significant changes in internal controls over financial reporting during the three months ended March 31, 2011 that have materially affected, or are reasonably likely to materially effect our internal controls over financial reporting.

ADDITIONAL INFORMATION

Further information about us, can be accessed under our public filings found on SEDAR at www.sedar.com or at www.harvestenergy.ca. Information can also be found by contacting our Investor Relations department at (403) 265-1178 or at 1-866-666-1178.

INTERM CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

<i>(thousands of Canadian dollars)</i>	Notes	March 31, 2011	December 31, 2010	January 1, 2010
Assets				
Current assets				
Cash and cash equivalents		\$ 5,895	\$ 18,906	\$ –
Accounts receivable and other		227,388	213,931	178,662
Prepaid expenses and deposits		33,134	73,280	15,551
Inventories	5	100,001	75,517	86,819
Risk management contracts	17	4,561	1,007	–
		370,979	382,641	281,032
Non-current assets				
Long-term deposit		12,394	12,394	–
Investment tax credits and other		44,287	44,339	2,177
Deferred income tax asset		1,633	1,633	–
Exploration and evaluation assets	6	112,742	59,554	36,034
Property, plant and equipment	7	5,094,140	4,483,236	4,054,619
Goodwill		404,943	404,943	404,943
		5,668,506	5,006,099	4,497,773
Total assets		\$ 6,041,118	\$ 5,388,740	\$ 4,778,805
Liabilities				
Current liabilities				
Bank loan	9	\$ –	\$ –	\$ 428,017
Accounts payable and accrued liabilities		433,029	360,487	205,378
Current portion of convertible debentures		–	–	182,806
Current portion of senior notes		–	–	42,921
Current portion of decommissioning liability	8	20,932	16,672	11,710
Risk management contracts	17	63,001	7,553	2,052
		516,962	384,712	872,884
Non-current liabilities				
Bank loan	9	29,660	11,379	–
Convertible debentures		744,490	745,257	748,261
Senior notes		470,676	482,389	222,456
Decommissioning liabilities	8	692,578	646,347	555,776
Post-employment benefit obligations		20,198	20,365	17,452
Deferred credit		407	293	358
Deferred income tax liability		70,223	81,143	142,105
		2,028,231	1,987,173	1,686,408
Total liabilities		\$ 2,543,193	\$ 2,371,885	\$ 2,559,292
Shareholder's equity				
Shareholder's capital	10	3,860,786	3,355,350	2,422,688
Deficit		(246,377)	(284,338)	(203,175)
Accumulated other comprehensive income (loss)	16	(118,485)	(54,157)	–
Total equity	22	3,495,924	3,016,855	2,219,513
Total liabilities and shareholder's equity		\$ 6,041,118	\$ 5,388,740	\$ 4,778,805

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

<i>(thousands of Canadian dollars)</i>	Notes	Three months ended March 31,	
		2011	2010
Petroleum, natural gas, and refined products sales		\$ 1,254,560	\$ 611,236
Royalty expense		(35,858)	(41,756)
Revenues	12	1,218,702	569,480
Purchased products for processing and resale		(861,791)	(331,396)
Operating		137,534	108,338
Transportation and marketing		4,697	3,158
General and administrative		13,963	12,858
Depletion, depreciation and amortization		140,744	136,779
Exploration and evaluation	6	6,215	26
Gain on disposition of property, plant and equipment		(240)	(263)
Finance costs	13	27,517	24,990
Risk management contracts (gains) losses	17	(5,463)	904
Foreign currency (gains) losses	14	(9,808)	6,328
Income (loss) before income tax		41,752	(55,034)
Income tax expense (reduction)		3,791	(35,082)
Net income (loss)		37,961	(19,952)
Other comprehensive income			
Losses on designated cash flow hedges, net of tax	17	40,407	–
Foreign currency translation adjustment		23,921	26,690
Comprehensive loss		\$ (26,367)	\$ (46,642)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

<i>(thousands of Canadian dollars)</i>	Notes	Shareholder's Capital	Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance at December 31, 2010	22	\$ 3,355,350	\$ (284,338)	\$ (54,157)	\$ 3,016,855
Issue of share capital for cash	10	505,436	–	–	505,436
Losses on designated hedges, net of tax	17	–	–	(40,407)	(40,407)
Currency translation adjustment		–	–	(23,921)	(23,921)
Net income		–	37,961	–	37,961
Balance at March 31, 2011		\$ 3,860,786	\$ (246,377)	\$ (118,485)	\$ 3,495,924
Balance at January 1, 2010	22	\$ 2,422,688	\$ (203,175)	\$ –	\$ 2,219,513
Issue of share capital for cash	10	465,679	–	–	465,679
Currency translation adjustment		–	–	(26,690)	(26,690)
Net loss	22	–	(19,951)	–	(19,951)
Balance at March 31, 2010		\$ 2,888,367	\$ (223,126)	\$ (26,690)	\$ 2,638,551

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>(thousands of Canadian dollars)</i>	Notes	Three Months Ended March 31,	
		2011	2010
Cash provided by (used in)			
Operating Activities			
Net income (loss)		\$ 37,961	\$ (19,952)
Items not requiring cash			
Depletion, depreciation and amortization		140,744	136,779
Unwinding of discount on decommissioning liabilities	8	5,796	5,723
Unrealized gains on risk management contracts	17	(3,240)	(110)
Unrealized currency exchange (gains) losses	14	(9,617)	6,709
Non-cash interest expense and other finance charges		(67)	(3,814)
Unsuccessful exploration and evaluation costs	6	6,091	–
Gains on disposition of property, plant and equipment		(240)	(263)
Deferred income tax (reduction)		3,807	(35,106)
Other non-cash items		370	(61)
Settlement of decommissioning liabilities	8	(1,967)	(5,650)
Change in non-cash working capital	15	(32,810)	(6,148)
		146,828	78,107
Financing Activities			
Issue of common shares, net of issue costs		505,436	465,679
Bank borrowing (repayments), net		18,636	(240,160)
Redemptions of senior notes		–	(42,262)
Redemptions of convertible debentures		–	(156,363)
Change in non-cash working capital	15	–	613
		524,072	27,507
Investing Activities			
Business acquisitions	4	(513,458)	–
Additions to property, plant and equipment	7	(238,216)	(111,989)
Additions to exploration and evaluation assets	6	(35,312)	(10,220)
Property dispositions (acquisitions), net		(2,038)	(30,938)
Change in non-cash working capital	15	105,113	47,304
		(683,911)	(105,843)
Change in cash and cash equivalents		(13,011)	(229)
Effect of exchange rate changes on cash		–	229
Cash and cash equivalents, beginning of period		18,906	–
Cash and cash equivalents, end of period		\$ 5,895	\$ –
Interest paid		\$ 8,297	\$ 13,644
Tax (received) paid, net		\$ (16)	\$ 24

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended March 31, 2011
(tabular amounts in thousands of Canadian dollars)

1. Nature of Operations and Structure of the Company

Harvest Operations Corp. ("Harvest" or the "Company") is an integrated energy company with petroleum and natural gas operations focused on the operation and further development of assets in western Canada ("Upstream") and a medium gravity sour crude hydrocracking refinery and a retail and wholesale petroleum marketing business both located in the Province of Newfoundland and Labrador ("Downstream").

Harvest is a wholly owned subsidiary of Korea National Oil Corporation ("KNOC"). The Company is incorporated and domiciled in Canada.

These consolidated interim financial statements were approved and authorized for issue by the Board of Directors on June 14, 2011.

2. Basis of Presentation

Prior to January 1, 2011, Harvest reported its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants. Effective on January 1, 2011, the Company has commenced reporting under International Financial Reporting Standards ("IFRS"). In these consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). As a result, they do not include all the annual disclosures in accordance with IFRS and should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010. Note 22 discloses IFRS information for the year ended December 31, 2010 that is material to an understanding of these consolidated interim financial statements.

Subject to certain transition elections disclosed in note 22, Harvest has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented. Note 22 discloses the impact of the transition to IFRS on the Company's reported financial position, operating results and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010 reported under Canadian GAAP. Comparative figures for 2010 in these consolidated financial statements have been restated to give effect to these changes.

(a) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for held for trading financial assets and derivative financial instruments, which are measured at fair value.

(b) Functional and Presentation Currency

In these consolidated financial statements, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars, which is the Company's functional currency. All references to US\$ are to United States dollars.

(c) Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant

estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below:

(i) *Reserves*

The provision for depletion and depreciation of Upstream assets is calculated on the unit-of-production method based on proved developed reserves. As well, reserve estimates impact net income through the application of impairment tests. Revisions or changes in the reserve estimates can have either a positive or a negative impact on net income and property, plant and equipment ("PP&E").

The process of estimating reserves is complex and requires significant judgments based on available geological, geophysical, engineering and economic data. In the process of estimating the economically recoverable oil and natural gas reserves and related future net cash flows, Harvest incorporates many factors and assumptions, such as:

- ◆ expected reservoir characteristics based on geological, geophysical and engineering assessments;
- ◆ future production rates based on historical performance and expected future operating and investment activities;
- ◆ future commodity prices and quality differentials;
- ◆ discount rates; and
- ◆ future development costs.

(ii) *Impairment of long-lived assets*

Long-lived assets (goodwill, PP&E and exploration and evaluation assets) are aggregated into cash-generating units ("CGUs") based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's CGUs is subject to significant judgment.

The recoverable amounts of CGUs and individual assets are determined based on the higher of value-in-use calculations and estimated fair values less costs to sell. To determine the recoverable amounts, Harvest uses reserve estimates and future commodity prices for the Upstream operations and expected future refining margins and capital spending plans for the Downstream operations. The estimates of future commodity prices, refining margins and discount rates require significant judgments.

(iii) *Exploration and evaluation ("E&E") assets*

The decision to transfer assets from E&E to PP&E is dependent on the technical feasibility and commercial viability of the related E&E projects. Such decision is subject to management's judgment and use of estimates such as reserves, future commodity prices and discount rates.

(iv) *Decommissioning liabilities*

In the determination of decommissioning liabilities, management is required to make a significant number of estimates and assumptions with respect to activities that will occur in the future including the ultimate settlement amounts, inflation factors, risk-free discount rates, timing of settlement, emergence of new restoration techniques and expected changes in legal, regulatory, environmental and political environments. The decommissioning liabilities also results in an increase to the carrying cost of the related capital assets. The obligation accretes to a higher amount with the passage of time as it is determined using present values. A change in any one of the assumptions could impact the estimated future obligation and in return, net income.

(v) *Employee benefits*

Harvest's Downstream operations maintains a defined benefit pension plan and provides certain post-retirement health care benefits, which cover the majority of its Downstream employees and their

surviving spouses. An independent actuary determines the costs of the Company's employee future benefit programs using certain management's assumptions and estimates such as, the expected plan investment performance, salary escalation, retirement ages of employees, expected health care costs, employee turnover, discount rates and return on plan assets. The obligation and expense recorded related to Harvest's employee future benefit plans could increase or decrease if there were to be a change in these estimates.

The Company also maintains a long-term incentive plan which is a performance-based program. As a result, the compensation costs accrued for the plan are subject to the estimation of what the ultimate payout will be and are subject to management's judgment as to whether or not the performance criteria will be met.

(vi) *Purchase price allocations*

Business acquisitions are accounted for using the purchase method. Under this method, the purchase price is allocated to the assets acquired and the liabilities assumed based on the fair values at the time of the acquisition. In determining the fair value of the assets and liabilities, Harvest is often required to make assumptions and estimates, such as reserves, future commodity prices, future refining margins and discount rates. Changes in any of these assumptions would impact amounts assigned to assets and liabilities and goodwill in the purchase price allocation and as a result, future net income.

(vii) *Risk management contracts*

Derivative risk management contracts are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity. Changes in any of these assumptions would impact fair value of the risk management contracts and as a result, future net income and other comprehensive income. For risk management contracts designated as hedges, changes in the abovementioned assumptions may impact hedge effectiveness assessment and Harvest's ability to continue applying hedge accounting.

(viii) *Income taxes*

Tax interpretations, regulations and legislation in the various jurisdictions in which Harvest and its subsidiaries operate are subject to change. The Company is also subject to income tax audits and reassessments which may change its provision for income taxes. Therefore, the determination of income taxes is by nature complex, and requires making certain estimates and assumptions.

Harvest recognizes the net future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

(ix) *Contingencies*

Contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

3. Significant Accounting Policies

(a) Consolidation

These consolidated financial statements include the accounts of Harvest and its subsidiaries. All inter-entity transactions and balances have been eliminated upon consolidation. Subsidiaries are fully consolidated from the date of acquisition, being the date on which Harvest obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as Harvest, using consistent accounting policies.

Harvest conducts substantially all of its Upstream petroleum and natural gas production activities through jointly controlled assets. The consolidated financial statements reflect only Harvest's proportionate interest in such activities.

(b) Revenue Recognition

Revenues associated with the sale of crude petroleum, natural gas, natural gas liquids and refined products are recognized when title passes to customers and payment has either been received or collection is reasonably certain. Revenues for retail services are recorded when the services are provided.

The sales price of residential home heating fuels and automotive gasoline and diesel within the Province of Newfoundland and Labrador is subject to regulation under the Petroleum Products Act. The Petroleum Products Pricing Commissioner sets the maximum wholesale and retail prices that a wholesaler and a retailer may charge and sets the maximum mark-up between the wholesale price to the retailer and the retail price to the consumer. Prices are set biweekly using a price adjustment formula based on an allowable premium with an interruption formula. The full effect of rate regulation is reflected in the product sales revenue.

(c) Inventories

Inventories are carried at the lower of cost or net realizable value. The costs of inventory are determined using the weighted average cost method. The valuation of inventory is reviewed at the end of each month. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal is limited to the amount of the original write-down. The costs of parts and supplies inventories are determined under the average cost method.

(d) Property, Plant, and Equipment and Exploration and Evaluation Assets

(i) Upstream

Exploration and evaluation expenditures

Prior to acquiring the legal rights to explore an area, all costs are charged directly to net income as E&E expense.

Once the legal rights to explore are acquired, all costs directly associated with the E&E are capitalized. E&E costs are those expenditures incurred for identifying, exploring and evaluating new pools in an area where technical feasibility and commercial viability has not yet been determined. These costs include acquisition of land and mineral leases, geological and geophysical costs, asset retirement costs, E&E drilling, sampling, appraisals and directly attributable general and administrative costs. All such costs are subject to technical, commercial and management review to confirm the continued intent to develop. When this is no longer the case, the costs are charged to net income as E&E expense. When technical feasibility and commercial viability are established, the relevant expenditure is transferred to PP&E after impairment is assessed and any resulting impairment loss is recognized.

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to CGUs. The impairment of E&E assets, and any eventual reversal thereof, is recognized as E&E expense in the statement of comprehensive income.

Development and production costs

The Upstream PP&E generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or an area basis (major components). Development costs include property acquisitions, development drilling, completion, gathering and infrastructure, asset retirement costs and transfers of E&E assets.

Major capital maintenance projects are capitalized but general maintenance and repair costs that do not extend or enhance the recoverable reserves are charged against income. All other expenditures are recognized in net income as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of PP&E are recognized in net income as incurred.

Depletion

Costs accumulated within each major component are depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved developed reserves. Costs of major development projects are excluded from the costs subject to depletion until they are available for use.

Disposal of assets

Gains and losses on disposal of an item of PP&E are determined by comparing the proceeds from disposal with the carrying amount of PP&E and are recognized in the period of disposal.

For exchanges that involve only unproven properties, the exchange is accounted for at cost. Exchanges of development and production assets are measured at fair value unless the exchange transaction lacks commercial substance if neither the assets given up nor the assets received can be reliably estimated.

(ii) *Downstream*

PP&E related to the refining assets are recorded at cost. General maintenance and repair costs are expensed as incurred. Major replacements and capital maintenance projects such as turnaround costs are capitalized. Improvements that increase or prolong the service life or capacity of an asset are capitalized. Any gains or losses on disposal of individual assets are recognized in the year of disposal.

Depreciation

When significant parts of an item of PP&E, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components). Depreciation of recorded cost less salvage value is provided on a straight-line basis over the estimated useful life of the major components as set out below.

<u>Asset</u>	<u>Period</u>
Refining and production plant:	
Processing equipment	5 – 35 years
Structures	15 – 20 years
Catalysts and turnarounds	2 – 8 years
Tugs	25 years
Vehicles	2 – 7 years
Office and computer equipment	3 – 5 years

(iii) Impairment of Property, Plant and Equipment and Exploration and Evaluation Assets

Harvest assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, Harvest estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In such case, impairment test is performed at the CGU level. A CGU is a group of assets that Harvest aggregates based on their ability to generate largely independent cash flows.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. To determine value-in-use, the Company estimates the present value of the future net cash flows expected to derive from the continued use of the asset or CGU. Discount rates that reflect the market assessments of the time value of money and the risks specific to the asset or CGU are used. In determining fair value less costs to sell, recent market transactions are taken into account, if available. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses are recognized in those expense categories consistent with the function of the impaired asset. Impairment losses recognized in respect of CGU are allocated first to reduce the carrying amount of the other assets in the group of units on a pro rata basis.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been an improvement in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior periods. Such reversal is recognized in the net income.

(e) Capitalized interest

Interest on major development projects are capitalized until the project is complete using the weighted-average interest rate on all of Harvest's borrowings. Capitalized interest is limited to the actual interest incurred.

(f) Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net income. Associated transaction costs are expensed when incurred.

Those petroleum reserves and resources that are able to be reliably valued are recognized in the assessment of fair values on acquisition. The fair value of oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on reserve estimates. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to groups of CGUs that are expected to benefit from the combination. Goodwill is carried at cost less impairment and is not amortized.

An impairment loss in respect of goodwill is not reversed. Goodwill is assessed for impairment annually at year-end or more frequently if events occur that could result in impairment. The recoverable amount is determined by calculating the recoverable amount of the group of CGUs goodwill has been allocated to. The excess of the carrying value of goodwill over the recoverable amount is then recognized as impairment and charged to income in the period in which it occurs.

(g) Provisions

(i) General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(ii) Decommissioning Liabilities

Harvest recognizes the present value of any decommissioning liabilities as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and normal use of the assets. Harvest uses a risk-free rate to estimate the present value of the expenditure required to settle the present obligation at the reporting date. The associated asset retirement costs are capitalized as part of the carrying amount of the related asset and the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the retirement obligation are charged against the decommissioning liabilities.

(iii) Contingencies

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable.

(h) Income Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in net income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax liabilities and assets are generally not recognized for temporary differences arising on:

- ◆ investments in subsidiaries and associates and interests in joint ventures;
- ◆ the initial recognition of goodwill; or
- ◆ the initial recognition of an asset or liability in a transaction which is not a business combination.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Post-Employment Benefits

Harvest's downstream operations maintains a defined benefit plan and provides certain post-retirement health care benefits, which cover the majority of its employees and their surviving spouses. The cost of providing the defined benefits and other post-retirement benefits is actuarially determined using the projected unit credit method reflecting management's best estimates of discount rates, rate of return on plan assets, rate of compensation increase, retirement ages of employees, and expected health care costs. Post-employment benefit expense includes the cost of benefits earned during the current year, the interest cost on the obligations, the expected return on plan assets, and the amortization of adjustments arising from pension plan amendments.

Pension plan assets are measured at fair values with the difference between the fair value of the plan assets and the total employee benefit obligation recorded on the balance sheet. Actuarial gains or losses are recognized in other comprehensive income immediately.

(j) Currency Translation

Foreign currency-denominated transactions are translated to the respective functional currencies of Harvest's entities at exchange rates at the date of the transactions. Non-monetary items measured at historical cost are not subsequently re-translated. Monetary assets and liabilities denominated in foreign currencies are converted into Harvest's functional currencies at the exchange rate at the reporting date. Conversion gains and losses on monetary items are included in net income in the period in which they arise.

Harvest's Downstream operations' functional currency is U.S. dollar, while Harvest's presentation currency is Canadian dollar. Therefore, the Downstream operations' assets and liabilities are translated at the period-end exchange rates, while revenues and expenses are translated using average rates over the period. Translation gains and losses relating to the foreign operations are included in accumulated other comprehensive income as a separate component of shareholder's equity.

(k) Financial Instruments

Harvest recognizes financial assets and financial liabilities, including derivatives, on the consolidated statements of financial position when the Company becomes a party to the contract. Financial liabilities are removed from the consolidated financial statements when the liability is extinguished either through settlement of or release from the obligation of the underlying liability. Financial assets are derecognized when (1) the rights to receive cash flows from the assets have expired or (2) the Company has transferred

its rights to receive cash flows from the assets or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the assets, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

The Company initially measures all financial instruments at fair value. Subsequent measurement of the financial instruments is based on their classification. Financial assets are classified into the following categories: held for trading, available for sale, held-to-maturity investments and loans and receivables. Financial liabilities are classified as held for trading or other financial liabilities.

Financial assets and financial liabilities classified as held for trading are measured at fair value with changes in those fair values recognized in net income. Financial assets classified as either held-to-maturity or loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair values with changes in those fair values recognized in other comprehensive income. The Company has designated cash and cash equivalents and risk management contracts as held for trading.

Transaction costs relating to financial instruments classified as held for trading are expensed in net income in the period that they are incurred. For transaction costs that are directly attributable to the acquisition or issuance of financial instruments not classified as held for trading, they are included in the costs of the financial instruments upon initial recognition.

Harvest assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired, as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

(I) Hedges

Harvest uses derivative financial instruments such as foreign currency contracts and financial commodity contracts to hedge its foreign currency risks and commodity price risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are recorded in net income, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

At the inception of a hedge relationship, Harvest formally designates and documents the hedge relationship to which the Company intends to apply hedge accounting. The designation document includes the risk management objective and strategy for undertaking the hedge, the identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the hedge effectiveness. Upon designation and at each reporting date, Harvest assesses hedge effectiveness by comparing the changes in the hedging instrument's fair value and the changes in the hedged item's fair value or cash flows attributable to the hedged risk. Only if such hedges are highly effective in achieving offsetting changes in fair value or cash flows will Harvest continue to apply hedge accounting.

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income, while any ineffective portion is recognized immediately in net income. Amounts recognized in other comprehensive income are transferred to the income statement when the hedged transaction affects net income, such as when the hedged forecasted transaction occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the nonfinancial asset or liability.

If the forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognized in other comprehensive income is transferred to net income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction affects net income.

(m) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and investments with a maturity date of three months or less and are recorded at fair value.

(n) Investment Tax Credits

Harvest is entitled to certain investment tax credits on qualifying manufacturing expenditures relating to its Downstream operations. These credits are recorded as a reduction of the related expense or as a reduction of the cost of the related asset. The benefits are recognized when the Company has complied with the terms and conditions of applicable tax legislation provided there is reasonable assurance of realization.

(o) Leases

Leases or other arrangements entered into for the use of an asset are classified as either finance or operating leases. Finance leases transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Capitalized leased assets are amortized over the shorter of the estimated useful life of the assets and the lease term. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

(p) Recent Pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company.

- ◆ Effective January 1, 2013, Harvest will be required to adopt IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Harvest is in the process of determining the potential impact on the adoption of this new standard.
- ◆ On May 12, 2011 the IASB issued three new standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements" and IFRS 12, "Disclosure of Interest in Other Entities". These new standards are effective for annual periods beginning on or after January 1, 2013. IFRS 10 replaces the consolidation requirements in SIC-12, "Consolidation – Special Purpose Entities" and a portion of IAS 27, "Consolidated and Separate Financial Statements". IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case) and requires a single method to account for interests in jointly controlled entities (equity method). IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet. Harvest will assess for the potential impact on the adoption of these new standards.

4. Acquisitions
a) Petroleum and natural gas assets

On September 30, 2010, Harvest acquired certain petroleum and natural gas assets including the remaining 40% interest in an operating partnership for total cash consideration of \$145.1 million. The acquisition was accounted for as a business combination. The provisional fair values of identifiable assets and liabilities as at the date of acquisition were:

Property, plant and equipment	\$	167,948
Evaluation and exploration assets		587
Decommissioning liability		(18,358)
Deferred tax liabilities		(5,032)
Total cash consideration	\$	145,145

The assets have contributed \$6.0 million from the date of acquisition to December 31, 2010 to Harvest's net income. If the acquisition had been completed on the first day of 2010, Harvest revenues for the year would have been \$32.6 million higher and the earnings before depletion and income tax would have been \$16.6 million higher.

b) Hunt acquisition

On February 28, 2011, Harvest acquired certain petroleum and natural gas assets of Hunt Oil Company of Canada, Inc. and Hunt Oil Alberta, Inc. (collectively "Hunt") for total cash consideration of \$505.5 million. An additional \$25 million payment to Hunt is payable in the event that Canadian natural gas prices exceed certain pre-determined levels over the next 2 years. Hunt also agreed to reimburse Harvest for costs associated with restoring production as well as the lost revenues relating to certain properties between October 1, 2010 and April 3, 2011, when production was resumed. A portion of the reimbursement may be reverted to Hunt if the future revenues earned by Harvest during the six months after the gas plant restores production exceeds the reimbursed amount. These potential adjustments to the purchase price are considered as contingent considerations and are required to be fair value. Based on forecast gas prices and production the probability of incurring such payments is assessed as low, as such \$nil fair value was assigned. KNOC provided \$505.4 million of equity to fund the acquisition.

The acquisition was accounted for as a business combination. The provisional fair values of identifiable assets and liabilities as at the date of acquisition were:

Consideration		
Cash	\$	505,458
Accrued liabilities		8,000
	\$	513,458
Fair value of assumed assets and liabilities		
Evaluation and exploration assets	\$	23,967
Property plant and equipment		528,021
Decommissioning liabilities		(38,030)
Other liabilities		(500)
	\$	513,458

The fair values are provisional due to the complexity of the acquisition and the inherently uncertain nature of the oil and gas asset valuation. The final review of the fair value of the purchase price allocation will be completed within 12 months of the acquisition.

From the date of acquisition, the Hunt assets have contributed \$6.9 million to the pre-tax net income of Harvest for the three months ended March 31, 2011. If the acquisition had been completed on the first day of

2011, Harvest revenues for the three months ended March 31, 2011 would have been \$19.4 million higher and the earnings before depletion and income tax would have been \$7.4 million higher.

5. Inventories

	March 31, 2011	December 31, 2010	January 1, 2010
Petroleum products			
Upstream	\$ 2,347	\$ 1,010	\$ 1,183
Downstream	93,643	70,586	81,240
	95,990	71,596	82,423
Parts and supplies	4,011	3,921	4,396
Total inventories	\$ 100,001	\$ 75,517	\$ 86,819

For the three month ended March 31, 2011, Harvest recognized inventory impairments of \$nil million (2010 – \$1.1 million) in its Downstream operations. Such write-down and recoveries amounts are included as costs in “purchased products for processing and resale” in the consolidated statement of comprehensive income.

6. Exploration and Evaluation Assets (E&E)

As at January 1, 2010	\$ 36,034
Additions	46,996
Acquisition	-
Dispositions	(970)
Unsuccessful exploration and evaluation costs	(2,858)
Transfer to property, plant and equipment	(19,648)
As at December 31, 2010	59,554
Additions	35,312
Acquisitions	23,967
Unsuccessful exploration and evaluation costs	(6,091)
As at March 31, 2011	\$ 112,742

During the three months ended March, 31 2011, the Company determined certain E&E costs to be unsuccessful and not recoverable. Accordingly, \$6.1 million (2010 – \$nil) E&E assets were recognized as E&E expense. For the year ended December 31, 2010, \$2.9 million of such costs were recognized in net income.

For the three months ended March 31, 2011, \$0.1 million in pre-licensing costs were charged directly to E&E expense (\$nil for the three months ended March 31, 2010 and \$0.4 million for the year ended December 31, 2010).

7. Property, Plant and Equipment (PP&E)

	Upstream	Downstream	Total
Cost			
As at January 1, 2010	\$ 2,940,877	\$ 1,113,742	\$ 4,054,619
Additions	356,851	71,297	428,148
Acquisitions	574,941	-	574,941
Change in decommissioning liabilities	71,838	2,407	74,245
Transfers from E&E	19,648	-	19,648
Disposals	-	(49)	(49)
Investment tax credits	-	(42,475)	(42,475)
Exchange adjustment	-	(63,037)	(63,037)
As at December 31, 2010	3,964,155	1,081,885	5,046,040
Additions	202,394	35,879	238,273
Acquisitions	530,242	-	530,242
Change in decommissioning liabilities	8,569	63	8,632
Exchange adjustment	-	(27,796)	(27,796)
As at March 31, 2011	\$ 4,705,360	\$ 1,090,031	\$ 5,795,391
Accumulated depletion, depreciation, amortization and impairment losses			
As at January 1, 2010	\$ -	\$ -	\$ -
Depreciation, depletion and amortization	470,642	83,091	553,733
Impairment	13,661	-	13,661
Exchange adjustments	-	(4,590)	(4,590)
As at December 31, 2010	484,303	78,501	562,804
Depreciation, depletion and amortization	121,344	19,400	140,744
Exchange adjustments	-	(2,297)	(2,297)
As at March 31, 2011	\$ 605,647	\$ 95,604	\$ 701,251
Net Book Value			
As at March 31, 2011	\$ 4,099,713	\$ 994,427	\$ 5,094,140
As at December 31, 2010	\$ 3,479,852	\$ 1,003,384	\$ 4,483,236
As at January 1, 2010	\$ 2,940,877	\$ 1,113,742	\$ 4,054,619

General and administrative costs of \$2.4 million have been capitalized during the three months ended March 31, 2011 (2010 – \$ 2.2 million). Borrowing costs relating to the development of BlackGold assets and the Downstream debottlenecking project have been capitalized within PP&E during the three months ended March 31, 2011 in the amount of \$1.3 million (2010 – \$nil), at a weighted average interest of 7.12% (2010 – \$nil).

At March 31, 2011 the following costs were excluded from the asset base subject to depreciation, depletion and amortization: Downstream major parts inventory of \$6.5 million (December 31, 2010 - \$6.8 million); Downstream assets under construction of \$99.1 million (December 31, 2010 - \$68.8 million); and, BlackGold oil sands assets of \$417.4 million (December 31, 2010 – \$385.3 million).

8. Decommissioning Liabilities

Harvest estimates the total undiscounted amount of cash flows required to settle its decommissioning liabilities to be approximately \$1.4 billion at March 31, 2011 (December 31, 2010 – \$1.2 billion) which will be incurred between 2011 and 2070. A risk-free discount rate of 3.4% (December 31, 2010 – 3.4%) was used to calculate the present value of the decommissioning liability.

A reconciliation of the decommissioning liability is provided below:

	Upstream	Downstream	Total
Balance at January 1, 2010	\$ 559,810	\$ 7,676	\$ 567,486
Liability incurred on acquisitions	22,393	-	22,393
Liabilities incurred	9,316	-	9,316
Settled during the period	(20,257)	-	(20,257)
Revisions (change in estimate)	58,989	2,407	61,396
Unwinding of discount	22,342	343	22,685
Balance at December 31, 2010	652,593	10,426	663,019
Liabilities incurred on acquisition	38,030	-	38,030
Liabilities incurred	5,464	-	5,464
Settled during the period	(1,967)	-	(1,967)
Revisions (change in estimate)	3,105	63	3,168
Unwinding of discount	5,704	92	5,796
Balance at March 31, 2011	\$ 702,929	\$ 10,581	\$ 713,510

9. Bank Loan

At March 31, 2011, Harvest had \$32 million drawn from the \$500 million available under the credit facility (\$14 million drawn from the \$500 million available at December 31, 2010). For the three months ended March 31, 2011 and 2010 interest charges on bank loans aggregated to \$0.4 million and \$0.9 million, reflecting an effective interest rate of 3.06% and 1.56% respectively.

10. Shareholder's Capital
(a) Authorized

The authorized capital consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series.

(b) Number of Common Shares Issued

Outstanding at January 1, 2010	242,268,802
Issued to KNOC at \$10.00 per share to fund debt repayment	46,567,852
Issued to KNOC at \$10.00 per share for BlackGold consideration [Note 20]	37,416,913
Issued to KNOC at \$10.00 per share for BlackGold project development	4,700,000
Issued to KNOC at \$10.00 per share for BlackGold project development	3,868,600
Issued to KNOC at \$10.00 per share for KNOC Global Technology and Research Centre	712,880
Outstanding at December 31, 2010	335,535,047
Issued to KNOC @ \$10.00 per share for Hunt acquisition	50,543,602
Outstanding at March 31, 2011	386,078,649

11. Capital Structure

Harvest considers its capital structure to be its credit facilities, senior notes, convertible debentures and shareholder's equity.

	March 31, 2011	December 31, 2010
Bank debt ⁽¹⁾	\$ 32,000	\$ 14,000
6½% senior notes (US\$500 million) ⁽²⁾	484,800	497,300
Principal amount of convertible debentures	733,973	733,973
Total debt	1,250,773	1,245,273
Shareholder's equity	3,495,924	3,016,855
Total capitalization	\$ 4,746,697	\$ 4,262,128

(1) Excludes capitalized financing fees

(2) Face value converted at the period end exchange rate

Harvest's primary objective in its management of capital resources is to have access to capital to fund its financial obligations as well as future growth. Harvest monitors its capital structure and makes adjustments according to market conditions to remain flexible while meeting these objectives. Accordingly, Harvest may adjust its capital spending programs, issue equity, issue new debt or repay existing debt.

Harvest evaluates its capital structure using the following financial ratios: bank debt to twelve month trailing EBITDA; secured debt to net present value of the Company's proved petroleum and natural gas reserves discounted at 10%; and total debt to total debt plus shareholder's equity. These ratios are also included in the externally imposed capital requirements per the Company's credit facility, senior notes and convertible debentures; Harvest was in compliance with all debt covenants at March 31, 2011.

	Covenant	March 31, 2011	December 31, 2010
Secured debt ⁽¹⁾ to EBITDA	3.0 to 1.0 or less	0.08	0.06
Total debt ⁽²⁾ to EBITDA	3.5 to 1.0 or less	1.85	2.38
Secured debt ⁽¹⁾ to Capitalization ⁽³⁾	50% or less	1%	1%
Total debt ⁽²⁾ to Capitalization ⁽³⁾	55% or less	29%	33%

(1) Senior debt consists of letters of credit, bank debt and guarantees.

(2) Total debt consists of secured debt and convertible debentures and notes.

(3) Capitalization consists of total debt and shareholder's equity.

12. Revenue and other income

	Three month ended March 31	
	2011	2010
Crude oil and natural gas sale, net of royalty	\$ 248,228	\$ 229,975
Refinery products sale	973,509	339,505
Settled portion of hedge (note 17)	(3,035)	-
	\$ 1,218,702	\$ 569,480

13. Finance Costs

	Three months ended March 31	
	2011	2010
Unwinding of discount on decommissioning liabilities	\$ 5,796	\$ 5,723
Interest and other financing charges	23,017	19,267
Less: Capitalized interest	(1,296)	-
	\$ 27,517	\$ 24,990

14. Foreign Exchange

	Three months ended March 31	
	2011	2010
Realized gains on foreign exchange	\$ (191)	\$ (381)
Unrealized (gains) losses on foreign exchange	(9,617)	6,709
	\$ (9,808)	\$ 6,328

15. Supplemental Cash Flow Information

	Three months ended March 31	
	2011	2010
Source (use) of cash:		
Trade and other receivables	\$ (13,457)	\$ 4,718
Deposits and prepaid expenses	40,146	1,691
Trade and other payables	72,542	39,125
Inventory	(24,484)	(1,805)
Net changes in non-cash working capital	74,747	43,729
Changes relating to operating activities	(32,810)	(6,148)
Changes relating to financing activities	-	613
Changes relating to investing activities	105,113	47,304
Add: Other non-cash changes	2,444	1,960
	\$ 74,747	\$ 43,729

16. Accumulated Other Comprehensive Loss

	Foreign Currency Translation Adjustment	Gain (Losses) on Designated Cash Flow Hedges, Net of Tax	Actuarial Loss, Net of Tax	Total
Balance on January 1, 2010	\$ -	\$ -	\$ -	\$ -
Loss on derivatives designated as cash flow hedge, Net of tax		(5,020)		(5,020)
Actuarial loss			(3,217)	(3,217)
Currency translation adjustment	(45,920)			(45,920)
Balance at December 31, 2010	(45,920)	(5,020)	(3,217)	(54,157)
Reclassification to net income of losses on cash flow hedges		3,035		3,035
Losses on derivatives as designated cash flow hedges		(43,442)		(43,442)
Currency translation adjustment	(23,921)			(23,921)
Balance at March 31, 2011	\$ (69,841)	\$ (45,427)	\$ (3,217)	\$(118,485)

17. Financial Instruments
(a) Fair Values

Financial instruments of Harvest consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank loan, risk management contracts, convertible debentures and the senior notes. The carrying value and fair value of these financial instruments are disclosed below by financial instrument category:

	March 31, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and Receivables				
Accounts receivable	\$ 227,388	\$ 227,388	\$ 213,931	\$ 213,931
Held for Trading				
Cash and cash equivalents	5,895	5,895	18,906	18,906
Fair value of risk management contracts	4,561	4,561	1,007	1,007
Total Financial Assets	\$ 237,844	\$ 237,844	\$ 233,844	\$ 233,844
Financial Liabilities				
Held for Trading				
Fair value of risk management contracts	\$ 63,001	\$ 63,001	\$ 7,553	\$ 7,553
Measured at Amortized Cost				
Accounts payable and accrued liabilities	433,029	433,029	360,487	360,487
Bank loan	29,660	32,000	11,379	14,000
Senior notes ⁽¹⁾	470,676	505,103	482,389	507,246
Convertible debentures	744,490	763,255	745,257	758,108
Total Measured at Amortized Costs	1,677,855	1,733,387	1,599,512	1,639,841
Total Financial Liabilities	\$ 1,740,856	\$ 1,796,388	\$ 1,607,065	\$ 1,647,394

(1) The face value of the senior notes at March 31, 2011 is \$484.8 million or US\$500 million (December 31, 2010 - \$497.3 million).

Harvest enters into risk management contracts with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs include foreign exchange contracts and financial commodity contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity.

The fair values of the convertible debentures and the senior notes are based on quoted market prices as at March 31, 2011. The fair value of the bank loan approximates to the carrying value (excluding deferred financing charges) as the bank loan bears floating market rates. The carrying value of the bank loan includes \$2.3 million of deferred financing charges at March 31, 2011. Due to the short term maturities of accounts receivable, deposits and accounts payable and accrued liabilities, their carrying values approximate their fair values.

Harvest's financial assets and liabilities recorded at fair value have been classified according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Harvest's cash and cash equivalents and risk management contracts have been assessed on the fair value hierarchy described above. Cash and cash equivalents are classified as Level 1 and risk management contracts as Level 2. During the three months ended March 31, 2011 and 2010, there were no transfers among Levels 1, 2 and 3.

(b) Risk Management Contracts

Harvest uses electricity price swap contracts to manage some of its price risk exposures. These swap contracts are not designated as hedges and are entered into for periods consistent with forecast electricity purchases.

The Company enters into crude oil swap contracts to reduce the volatility of cash flows from some of its forecast sales. The swaps are designated as cash flow hedges and are entered into for periods consistent with the forecast petroleum sales. The effective portion of the unrealized loss of \$40.4 million (net of deferred tax asset of \$14.7 million) was included in other comprehensive income for the three months ended March 31, 2011 (2010 – \$nil). The amount removed from accumulated other comprehensive income during the period and included in petroleum, natural gas, and refined product sales was \$3.0 million for the three months ended March 31, 2011 (2010 – \$nil). The Company expects that the \$62.0 million of losses reported in accumulated other comprehensive income will be released to net income within the next 9 months. The ineffective portion of the cash flow hedges recognized in net income for the three months ended March 31, 2011 was \$0.3 million (2010 – \$nil).

The following is a summary of Harvest's realized and unrealized gain (losses) on risk management contracts:

	Three months ended March 31							
	2011				2010			
	Power	Crude oil	Currency	Total	Power	Crude oil	Currency	Total
Realized gains (losses) risk management contracts	\$ 2,282	\$ (59)	\$ -	\$ 2,223	\$(1,014)	\$ -	\$ -	\$ (1,014)
Unrealized gains (losses) on risk management contracts	3,554	(285)	(29)	3,240	110	-	-	110
Risk management contracts gains (losses)	\$ 5,836	\$ (344)	\$ (29)	\$ 5,463	\$ (904)	\$ -	\$ -	\$ (904)

The following is a summary of Harvest's risk management contracts outstanding at March 31, 2011:

Contracts not Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Fair value
30 MWh	Electricity price swap contracts	Jan - Dec 2011	Cdn \$46.87	\$ 4,561
16,900 USD	Foreign exchange contract	Mar - April 2011	\$0.9714Cdn/USD	(29)
				\$ 4,532

Contracts Designated as Hedges

Contract quantity	Type of Contract	Term	Contract Price	Fair value
8,200 bbls/day	Crude oil price swap contract	Jan - Dec 2011	US \$91.23/bbl	\$ (36,525)
5,000 bbls/day	Crude oil price swap contract	Feb - Dec 2011	US \$95.82/bbl	(16,152)
3,200 bbls/day	Crude oil price swap contract	Mar - Dec 2011	US \$95.87/bbl	(10,295)
16,400 bbls/day				\$ (62,972)

18. Segment Information

Harvest operates in Canada and has two reportable operating segments, Upstream and Downstream. Harvest's Upstream operations consist of development, production and subsequent sale of petroleum, natural gas and natural gas liquids, while its Downstream operations include the purchase of crude oil, the refining of crude oil, the sale of the refined products including a network of retail operations and the supply of refined products to commercial and wholesale customers.

	Three Month Ended March 31					
	Downstream		Upstream		Total	
	2011	2010	2011	2010	2011	2010
Petroleum, natural gas and refined products sales	\$973,509	\$339,505	\$281,051	\$ 271,731	\$1,254,560	\$ 611,236
Royalty expense	-	-	(35,858)	(41,756)	(35,858)	(41,756)
Revenue	973,509	339,505	245,193	229,975	1,218,702	569,480
Purchased products for resale and processing	(861,791)	(331,396)	-	-	(861,791)	(331,396)
Operating	53,939	44,085	83,595	64,253	137,534	108,338
Transportation and marketing	1,694	951	3,003	2,207	4,697	3,158
General and administrative	441	441	13,522	12,417	13,963	12,858
Depletion, depreciation and amortization	19,400	20,445	121,344	116,334	140,744	136,779
Exploration	-	-	6,215	26	6,215	26
Gain on dispositions of PP&E	-	-	(240)	(263)	(240)	(263)
Finance costs					27,517	24,990
Risk management contracts (gains) losses					(5,463)	904
Foreign exchange (gains) losses					(9,808)	6,328
Income (loss) before income tax					41,752	(55,034)
Future income tax expense (reduction)					3,791	(35,082)
Net income (loss)					\$ 37,961	\$ (19,952)
Capital Expenditures						
Business acquisition	\$ -	\$ -	\$513,458	\$ -	\$ 513,458	\$ -
Additions to property, plant and equipment	35,879	8,683	202,337	103,306	238,216	111,989
Additions to exploration and evaluation assets	-	-	35,312	10,220	35,312	10,220
Property acquisitions (dispositions), net	-	-	2,038	30,938	2,038	30,938
Total expenditures	\$ 35,879	\$ 8,683	\$753,145	\$144,464	\$ 789,024	\$153,147

(1) Accounting policies for segments are the same as those described in Note 2 above.

(2) Of the total Downstream revenue, two customers represent sales of \$633.0 million and \$101.6 million for the three months ended March 31, 2011 (2010 - \$171.4 million and \$41.5 million). No other single customer within either division represents greater than 10% of Harvest's total revenue.

(3) There is no intersegment activity.

	March 31, 2011			December 31, 2010			January 1, 2010		
	Downstream	Upstream	Total	Downstream	Upstream	Total	Downstream	Upstream	Total
Total Assets	\$1,206,194	\$4,834,924	\$6,041,118	\$1,211,367	\$4,177,373	\$5,388,740	\$1,273,882	\$3,504,923	\$4,778,805
Property, plant and equipment	\$ 994,427	\$4,099,713	\$5,094,140	\$1,003,384	\$3,479,852	\$4,483,236	\$1,113,742	\$2,940,877	\$4,054,619
Evaluation and exploration	\$ -	\$ 112,742	\$ 112,742	\$ -	\$ 59,554	\$ 59,554	\$ -	\$ 36,034	\$ 36,034
Goodwill	\$ -	\$ 404,943	\$ 404,943	\$ -	\$ 404,943	\$ 404,943	\$ -	\$ 404,943	\$ 404,943

19. Commitments and Contingencies

North Atlantic has a supply and offtake agreement with Vitol Refining S.A. (“Vitol”) for a primary term to October 31, 2011. This agreement provides that the ownership of substantially all crude oil feedstock and refined product inventory at the refinery be retained by Vitol and that Vitol has the right and obligation to provide crude oil feedstock for delivery to the refinery, as well as the right and obligation to purchase substantially all refined products produced by the refinery. As such, as of March 31, 2011, North Atlantic had commitments totaling approximately \$609.6 million in respect of future crude oil feedstock purchases from Vitol.

The following is a summary of Harvest’s contractual obligations and commitments as at March 31, 2011:

	Maturity				
	1 year	2-3 years	4-5 years	After 5 years	Total
Debt repayments ⁽¹⁾	\$ -	\$ 529,394	\$ 236,579	\$ 484,800	\$ 1,250,773
Debt interest payments	94,959	151,587	87,483	49,995	384,024
Purchase commitments ⁽²⁾	208,241	102,380	-	-	310,621
Operating leases	8,122	14,264	6,256	423	29,065
Transportation agreements ⁽³⁾	11,207	14,848	5,432	3,124	34,611
Feedstock & other purchase commitments ⁽⁶⁾	719,992	-	-	-	719,992
Employee benefits ⁽⁴⁾	5,271	8,570	7,883	3,019	24,743
Decommissioning liabilities ⁽⁵⁾	20,932	34,479	39,855	1,297,519	1,392,785
	\$1,068,724	\$ 855,522	\$ 383,488	\$ 1,838,880	\$ 4,146,614

(1) Assumes constant foreign exchange rate.

(2) Relates to drilling commitments, AFE commitments, BlackGold oil sands project commitment and Downstream purchase commitments.

(3) Relates to firm transportation commitment.

(4) Relates to the expected contributions to employee benefit plans.

(5) Represents the undiscounted obligation by period.

(6) Includes commitments to purchase refined products for resale.

20. Related Parties

On August 6, 2010, Harvest acquired the BlackGold oil sands project (“BlackGold”) from KNOC for \$374 million, representing the fair value of the oil and gas assets acquired. The acquisition was paid with the issuance of shares to KNOC. The following amounts were added to Harvest’s statement of change in financial position at August 6, 2010 as a result of this transaction:

Current assets	\$ 500
Property, plant and equipment	374,182
Long-term liabilities	(10)
Decommissioning liabilities	(503)
Common shares	\$ (374,169)

21. Subsequent Events

On April 29, 2011, Harvest extended the term of its credit facility by 2 years to April 30, 2015. The minimum rate charged on the credit facility was also amended from 200 bps to 175 bps over bankers' acceptance rates as long as Harvest's secured debt to EBITDA ratio remains below or equal to one. The borrowing capacity of the credit facility remains at \$500 million and the financial covenants remain unchanged.

On April 14, 2011, Vitol provided a six-month notice to terminate the SOA effective November 1, 2011. Harvest is evaluating various options to procure crude feedstock subsequent to the termination date.

22. First Time Adoption of IFRS

IFRS 1 "First-time Adoption of International Financial Reporting Standards" establishes the transitional requirements for the preparation of financial statements upon first time adoption of IFRS. IFRS 1 generally requires an entity to comply with IFRS effective at the reporting date and to apply these retrospectively to the opening balance sheet, the comparative period and the reporting period. The standard allows certain optional exceptions from full retrospective application and other elections on transition, which the Company has applied as follows:

Business Combinations Exemption

The Company has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the January 1, 2010 transition date ("Transition Date").

Deemed Cost Election for Oil and Gas Assets

Under Canadian GAAP, the Company accounted for its oil and gas properties in one cost centre using full cost accounting. The Company elected to apply the exemption in IFRS 1 available to full cost oil and gas entities to its Upstream PP&E and measure its oil and gas properties at the Transition Date on the following basis:

- ◆ E&E assets at the amount determined under Canadian GAAP; and
- ◆ the remainder allocated to the underlying PP&E assets on a pro rata basis using proved and probable reserve values discounted at 10 percent at the Transition Date.

Fair Value as Deemed Cost Exemption

The Company elected to use the fair value as deemed cost exemption on its Downstream PP&E at the Transition Date.

Lease Exemption

The Company has elected to carry forward assessments made under Canadian GAAP for arrangements containing leases. The assessment of arrangements containing leases results in the same outcome under IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease".

Decommissioning Liabilities

Harvest has applied the deemed cost election for oil and gas assets under IFRS 1 and as such decommissioning liabilities at the Transition Date have been measured in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". The Company recognized directly in retained earnings any difference between the re-measured amount and the carrying amount of those liabilities at the Transition Date.

For the Downstream decommissioning liabilities, Harvest applied the exemption from full retrospective application of IAS 37 under IFRS 1. As such, the Company measured the decommissioning liabilities at the Transition Date, and recognized the corresponding charge in retained earnings.

Reconciliations of Canadian GAAP to IFRS

This is the first year that the Company has presented financial statements under IFRS; as such, the following reconciliations between Canadian GAAP and IFRS are included to provide an understanding of the material adjustments to the financial statements. The transition from Canadian GAAP to IFRS had no material effect upon previously reported cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods for shareholder's equity, net income, and comprehensive income.

Reconciliation of Shareholder's Equity

	Note	January 1, 2010	March 31, 2010	December 31, 2010
Shareholder's equity under Canadian GAAP		\$ 2,422,688	\$ 2,842,293 ⁽¹⁾	\$ 3,250,943
Decommissioning liabilities	a	(272,258)	(271,982)	(270,142)
Exploration and evaluation expenses	b			
Impairment of exploration and evaluation expense		-	-	(2,858)
Pre-licensing costs		-	(26)	(442)
CGU impairment	c	-	-	(13,661)
Depletion, depreciation and amortization	d	-	(11,366)	(47,792)
Dispositions	e	-	263	335
Acquisitions	f			
Acquisition costs		-	-	(329)
BlackGold asset transfer		-	-	8,467
Gain on acquisition		-	-	406
Post-employment benefits	g	-	-	(2,765)
Future income taxes	h	69,083	79,111	94,283
Cumulative translation adjustments	i	-	257	440
Shareholders' equity under IFRS		\$ 2,219,513	\$ 2,638,550	\$ 3,016,855

(1) This amount has been adjusted from the previously reported amount of Harvest Energy Trust to reflect the effect of the KNOC acquisition and the subsequent internal reorganization.

Reconciliation of Net Income

	Note	For the three months ended March 31, 2010	For the year ended December 31, 2010
Net loss under Canadian GAAP		\$ (19,127) ⁽¹⁾	\$ (44,561)
Decommissioning liabilities	a	533	2,556
Exploration and evaluation expenses	b		
Unsuccessful exploration and evaluation costs		-	(2,858)
Pre-licensing costs		(26)	(442)
CGU impairment	c	-	(13,661)
Depletion, depreciation and amortization	d	(11,366)	(47,792)
Dispositions	e	263	335
Acquisitions	f		
Acquisition costs		-	(329)
Gain on acquisition		-	406
Post-employment benefits	g	-	423
Future income taxes	h	10,028	25,200
Foreign currency translation	i	(257)	(440)
Total differences		(825)	(36,602)
Net loss under IFRS		\$ (19,952)	\$ (81,163)

(1) This amount has been adjusted from the previously reported amount of Harvest Energy Trust to reflect the effect of the KNOC acquisition and the subsequent internal reorganization.

Reconciliation of Other Comprehensive Income

	Note	For the three months ended March 31, 2010	For the year ended December 31, 2010
Other comprehensive loss under Canadian GAAP		\$ (26,947)	\$ (51,380)
Post-employment benefits	g	-	(3,217)
Cumulative translation adjustments	i	257	440
Total differences		257	(2,777)
Other comprehensive income under IFRS		(26,690)	(54,157)
Net loss under IFRS		(19,952)	(81,163)
Comprehensive income under IFRS		\$ (46,642)	\$ (135,320)

Reconciliation of Cash from Operating, Investing and Financing Activities

	Note	For the three months ended March 31, 2010	For the year ended December 31, 2010
Cash from operating activities as reported under Canadian GAAP		\$ 78,134	\$ 430,255
Exploration and evaluation expenses	b	(26)	(442)
Acquisition cost	f	-	(329)
Cash from operating activities as reported under IFRS		\$ 78,108	\$ 429,484
Cash used in investing activities as reported under Canadian GAAP		\$ (105,870)	\$ (629,320)
Exploration and evaluation expenses	b	26	442
Acquisition cost	f	-	329
Cash used in investing activities as reported under IFRS		\$ (105,844)	\$ (628,549)

There was no difference between Canadian GAAP and IFRS related to cash from financing activities.

(a) Decommissioning liabilities

The Company elected to apply the IFRS 1 exemption relating to decommissioning liabilities and re-measured decommissioning liabilities as at January 1, 2010 using the relevant risk-free rate. The exemption resulted in an increase of \$272.3 million in decommissioning liabilities and a corresponding increase to deficit. This increase is mainly attributable to the change from the credit-adjusted risk-free rate to the risk-free rate of 4% for the Upstream decommissioning liabilities, resulting in an adjustment of \$264.6 million. The recognition standards are different between Canadian GAAP and IFRS, which resulted in the recognition of the Downstream decommissioning liabilities of \$7.7 million under IFRS on the Transition Date.

Under IFRS, the discount rate is adjusted each reporting period to reflect the current market risk-free rate. As at March 31, 2010, PP&E and the decommissioning liability were \$3.4 million higher under IFRS and \$68.8 million higher at December 31, 2010.

As the opening decommissioning liabilities and the discount rates are different under IFRS, the accretion expense decreased by \$0.5 million and \$2.6 million for the three months ended March 31, 2010 and the year ended December 31, 2010 respectively. There was minimal impact to the accretion due to the reduction of decommissioning liabilities resulted from the dispositions discussed under item (e).

(b) Exploration and evaluation costs
Unsuccessful exploration and evaluation costs

Under IFRS, Harvest capitalized costs relating to exploration and evaluation activities until a project is determined to be successful or otherwise. If a project is deemed to be successful technically feasible and

commercially viable, the costs are tested for impairment and then transferred to property, plant and equipment. If a project is deemed to be unsuccessful, the associated costs are charged to the income statement in the period as unsuccessful exploration and acquisition costs. During the three months ended March 31, 2010 and the year ended December 31, 2010, the Company recognized \$nil and \$2.9 million, respectively, of losses on certain unsuccessful E&E projects.

Pre-licensing cost

Under IFRS, costs incurred prior to obtaining the legal right to explore must be expensed while under Canadian GAAP these costs were capitalized in the PP&E under one full-cost centre. For the three months ended March 31, 2010 and the year ended December 31, 2010, \$nil and \$0.4 million of pre-licensing costs were expensed under IFRS. The accounting policy difference has resulted in a decrease in cash from operating activities and an increase in cash from investing activities by the same amounts for the three months March 31, 2010 and the for the year ended December 31, 2010.

(c) CGU impairment

Under IFRS, impairment testing is performed at a lower level of asset aggregation than under Canadian GAAP. During the fourth quarter of 2010, Harvest recorded a \$13.7 million before tax impairment related to certain properties in South Alberta to reflect declining forecasted gas prices which resulted in lower estimated future cash flows. The recoverable amount was based on the assets' value-in-use, estimated using the net present value of the future cash flow.

(d) Depletion, depreciation and amortization

Under IFRS, Harvest aggregates its PP&E into major components for depletion, depreciation and amortization. For the Upstream PP&E, costs accumulated within each component are depleted using the unit-of-production method based on estimated proved developed reserves, whereas under Canadian GAAP, estimated proved reserves were used. The carrying value of the PP&E under IFRS differed from that under Canadian GAAP as a result of changes in the accounting of decommissioning liabilities and dispositions of PP&E as discussed in items (a) and (e).

Among these changes, the componentization of PP&E and the use of proved developed reserves for depletion primarily attributed to the recognition of additional \$11.4 million and \$47.8 million of depletion, depreciation and amortization expense for the three months ended March 31, 2010 and the year ended December 31, 2010 respectively.

(e) Dispositions

Under Canadian GAAP, proceeds on the dispositions of oil and gas properties were credited to the full cost pool and no gain or loss was recognized unless the effect of the sale would have changed the DD&A rate by 20% or more. Under IFRS, all gains and losses are recognized on oil and gas property divestitures and calculated as the difference between net proceeds and the carrying value of the net assets disposed. Accordingly, Harvest recognized a gain on PP&E disposal of \$0.3 million and \$1.3 million for the three months ended March 31, 2010 and the year ended December 31, 2010 respectively under IFRS. During the year ended December 31, 2010, Harvest already recognized a loss of \$1 million relating to disposition of certain E&E assets.

(f) Acquisition

Acquisition costs

Under IFRS, acquisition costs relating to a business combination are expensed, as such, \$0.3 million of acquisition costs were expensed for the year ended December 31, 2010. Under Canadian GAAP, such costs were capitalized as part of the PP&E.

BlackGold asset transfer

Under IFRS, the transfer of BlackGold oil sand assets from KNOC in August 2010 is measured at fair value of the assets and liabilities. Under Canadian GAAP, the assets and liabilities were transferred at the carrying value. The difference in the accounting treatment results in a reversal of \$8.5 million loss that was previously

recognized in retained earnings and an increase of \$8.5 million in PP&E. Note 20 discloses the detail of the transfer.

Gain on acquisition

On August 6, 2010, Harvest entered into an agreement with Enerplus to purchase the remaining 40% of the Redearth Partnership ("Partnership") as well as additional petroleum and natural gas rights, tangible assets, seismic data and other miscellaneous interests and associated production. Under IFRS, the acquirer is required to re-measure its previously held equity interest in the acquiree (the Partnership) at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss; as such a gain of \$0.4 million was recognized in the income statement relating to the 60% previously held interest in the Partnership for the year ended December 31, 2010. Canadian GAAP did not require such re-measurement. See Note 4 for other information on this asset acquisition.

(g) Post-employment benefits

Under Canadian GAAP, the Company amortized actuarial gains and losses to income over the estimated average remaining service life, with disclosure of the unrecognized amount in the notes to the consolidated financial statements. Under IFRS, actuarial gains and losses are recognized directly in other comprehensive income in the period in which they occur. For the three months ended March 31, 2010 and the year ended December 31, 2010, actuarial losses amortization of \$nil and \$0.4 million were reclassified to other comprehensive income from the net income respectively. Together with the recognition of the unamortized actuarial losses, other comprehensive income was reduced by \$nil and \$3.2 million (net of deferred tax asset of \$0.7 million) respectively under IFRS.

(h) Future income taxes (FIT)

IAS 12 requires recognizing of the FIT that arises on the difference between historical and current exchange rates on the translation of non-monetary assets, whereas Canadian GAAP did not. This difference, however, does not impact the FIT balance on transition date as the cumulative translation adjustments balance at transition date is \$nil as a result of the KNOC acquisition. For the three months ended March 31, 2010 and year ended December 31, 2010, the FIT expense decrease by \$7.3 million and \$10.9 million respectively.

As a result of the increase in the net book value of the decommissioning liabilities, deferred taxes have been adjusted. This resulted in a corresponding increase in retained earnings of \$69.1 million on January 1, 2010.

The future income tax expense decreased by \$2.7 million and \$14.3 million for the three months ended March 31, 2010 and the year ended December 31, 2010, resulting from these two IFRS and Canadian GAAP differences.

(i) Currency translation

Harvest's Downstream functional currency is U.S. dollars. As a result of the addition of the Downstream decommissioning liabilities in accordance with IAS 37, a currency exchange loss resulted from the revaluation of the liabilities at the end of each reporting period. For the three months ended March 31, 2010 and year ended December 31, 2010 the amount of foreign exchange loss recognized was \$0.3 million and \$0.4 million respectively which increased net loss and decreased other comprehensive loss.

Reclassifications

E&E and PP&E

Under Canadian GAAP, the Company had accounted for such costs under the full-cost method where these costs were included in PP&E. IFRS requires E&E costs to be segregated from PP&E.

As a result of the application of IFRS, the Company has separately classified E&E expenditures of \$36.0 million from PP&E at the Transition Date. At March 31, 2010 and December 31, 2010, \$10.2 million and \$47.0 million, respectively, were reclassified. Note 6 discloses a reconciliation of E&E assets from the Transition Date to March 31, 2011.

Accretion of decommissioning liabilities

Accretion expense under Canadian GAAP has been re-classified from depreciation, depletion, amortization and accretion expense to finance costs under IFRS. The amount that was reclassified was \$6.2 million for the three months ended March 31, 2010 and \$25.2 million for the year ended December 31, 2010.

Downstream loyalty program

Under Canadian GAAP, the Company had accounted for loyalty program costs by recording an expense. Under IFRS, the fair value of the consideration received or receivable in respect of the initial sale should be allocated between the award credits. As such, the Company has allocated the fair value of the consideration received from the sales to the award credits. This resulted in reclassifying \$0.3 million and \$1.3 million of petroleum, natural gas, and refined product sales to Downstream operating expenses for the three months ended March 31, 2010 and the year ended December 31, 2010 respectively.